Innealta
CAPITAL

COMMENTARY: FEBRUARY 8, 2013

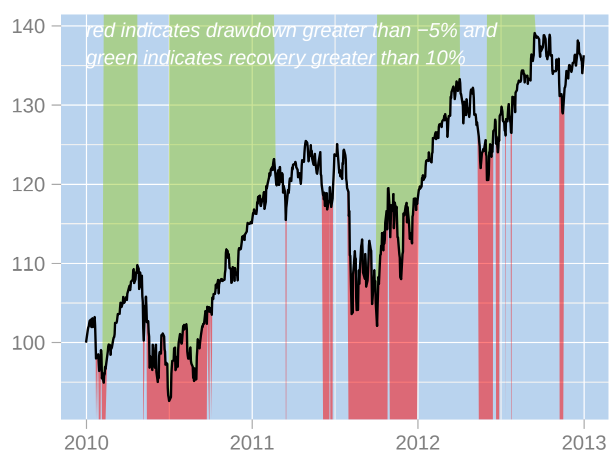
THREE-YEAR PERFORMANCE REVIEW

- The end of 2012 marked the three-year anniversary of the inception of the Innealta Capital portfolios at AFAM Capital. This month's commentary is a review of the three-year performance of the ten strategies.
- The review focuses on risk-relative performance of each strategy relative to its benchmark, which for the purposes of this commentary have been constituted using ETF representatives of relevant indices.
- Every portfolio outperformed its ETF-based benchmark on a risk-relative gross-of-fee basis for the trailing three years, most of them by a wide margin. And nearly all of the portfolios outperformed those same benchmarks on an absolute gross-of-fee basis.
- We're not much for patting ourselves on our backs, but considering our disciplined focus on the prospective risk-relative returns for all of the asset classes we review in the context of the grand tumult experienced at the global macroeconomic, geopolitical, atmospheric and equity market levels, we are both proud and pleased with the results.
- In addition to a more focused review of the strategies, we include a metric-oriented Q42012 Performance Reference document under separate cover for deeper review.

INTRODUCTION

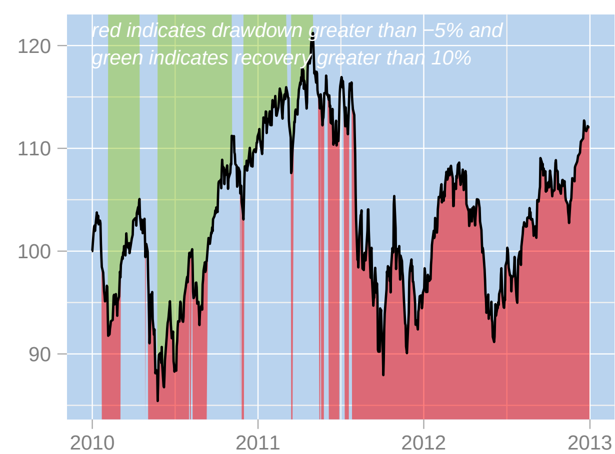
It has been three years since we launched the Innealta portfolios at AFAM Capital.[1] Since then, equity markets around the world have proved far from tame, oftentimes providing ample opportunity to suffer and profit from their swings. As we show in Figure 1, there have been six occasions during which the S&P 500 has dropped by more than 5% in an individual drawdown period (time period over which the index drops below a specific peak and subsequently exceeds that prior peak). On four occasions the index has recovered by more than 10% from the maximum of that drawdown before yet another drawdown began. For the MSCI All Country World Index, ex. U.S., the drawdowns and the recoveries have been steeper, though that index remains below its 2011 peak.

1: S&P 500 Index Drawdown/Recovery



As of 12.31.12. Reindexed to 100 on 12.31.09. SOURCE: Innealta Capital using data from Bloomberg

2: MSCI ACWI, ex. U.S. Drawdown/Recovery



As of 12.31.12. Reindexed to 100 on 12.31.09. SOURCE: Innealta Capital using data from Bloomberg

Meantime, many fixed income markets have proved relatively stable and reliable sources of income, and sometimes sources of measurable capital gain. Readers will note the steadier gains of the Barclays Capital U.S. Aggregate shown in Figure 3; there was only one drawdown in excess of 2.5%, and the index hasn't seen a drop of similar magnitude since. Not that the fixed income space was without exceptional opportunity. We found several occasions to rework the portfolio for better prospective risk-relative returns. We'll gauge the success of those transitions as we move through this commentary.

Our goal for this piece is to provide a more comprehensive data-oriented review of since-inception portfolio performance. We thus won't spend too much time covering market history. Rather, we'll seek to offer specific explanations for benchmark-relative risk-adjusted and absolute performance.

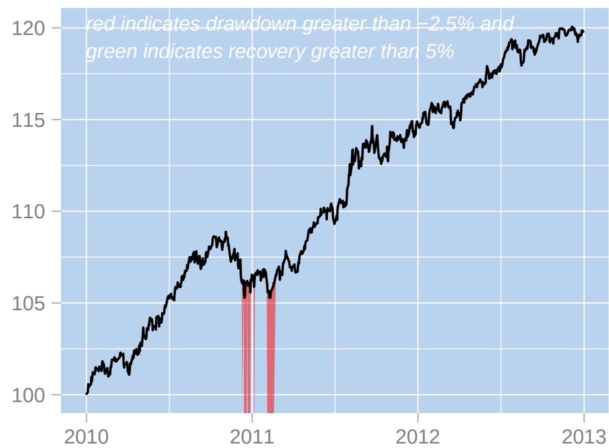
EXPANDED OPPORTUNITY SET

That combination of equity market volatility and relative fixed income market stability provided a fine backdrop against which to test the mettle of our investment methodology. A trend very much supporting our efforts, we welcomed a great expansion in the investment opportunity set in both equity markets and fixed income segments. This expansion, in our view, has in turn furthered our flexibility in executing our investment philosophy. That is, as portfolio managers, we might like to invest in a particular space, but we are limited to asset classes with relevant ETFs that are sufficiently liquid. Thankfully, the universe is broad and deep enough to allow access to most asset classes that currently interest the Investment Committee.

For example, the current composition of the Fixed Income Portfolio is very different from that of December 2009 when we relaunched the portfolios as Innealta. Back then the list of available fixed income ETFs was a fraction of what we can see now. While there still was measurable opportunity among the various fixed income segments then represented

[1] Dr. Buetow has been managing portfolios under each of these strategies since 2006. His prior work experience is the source of available hypothetical performance data.

3: Barclays Capital U.S. Aggregate Index Drawdown/Recovery



As of 12.31.12. Reindexed to 100 on 12.31.09. Recovery shown only if there is a subsequent drawdown. SOURCE: Innealta Capital using data from Bloomberg

by ETFs, we were much more limited in our ability to allocate within and around our benchmark, the Barclays U.S. Aggregate. Since then, we've seen ETF providers disaggregate that universe, allowing further differentiation from the benchmark within the U.S.-specific fixed income marketplace. Even more, providers have launched a slew of non-U.S. and non-U.S.-dollar-denominated ETFs, which provide both pickup to the portfolio in terms of yield per unit of duration and critical diversification that we have seen contribute greatly to longer-term portfolio performance, particularly over the last six months. In fact, as the emphasis in the portfolios over the past three years has fallen mostly on fixed income markets, a near quintupling in the opportunity set in that asset class certainly played a part in our ability to outperform our benchmarks on a risk-relative basis.

Incremental additions to the universe of individual country equity markets available to our portfolios, as well as further granularity in regard to regional equity markets, also supported our ability to tactically rotate out of fixed income into especially attractive equity markets in the Country Rotation Portfolio and both shift allocations to what in our view are more favorable equity markets (our secular tactical asset allocations, or STAA) and to tactically under- and overweight those equity markets that periodically retained more favorable risk/reward prospects in the Risk-Based Portfolios.

We continue to work with the ETF providers to make sure asset classes that are not necessarily very interesting now are at least in their development set for some future time. For instance, we might not currently like much of the universe of European fixed income segments. But that stance is unlikely to persist in perpetuity. In fact, there have been periods of short-term opportunity in various smaller segments of that world reminding us that at some point we're likely to be interested in some specific exposures there. Readers should know that it's these sorts of topics that dominate our conversations with ETF providers.

BENCHMARK COMPARISONS

For our own internal reviews of portfolio performance, we compare our strategies against two sets of indices. The first is a set of classical blended index-based benchmarks. For example, the benchmark for the Sector Rotation Portfolio is a 60%/40% combination of the S&P 500 and the Barclays U.S. Aggregate, in that order. As goes the oft-cited suggestion, though, one cannot directly invest in an index. To make the comparison more realistic, we also compare the performance of our portfolios using benchmarks comprised of the ETFs that represent the indices used in our index-based benchmarks.

By emphasizing the latter on these pages, we effectively are making a more relevant comparison by making reasonable account for the costs in effecting a specific asset allocation strategy, which include tracking error (the ETFs' abilities to match the performance of their underlying benchmarks), and the costs to maintain the ETF portfolio. In that way, we believe we are highlighting our ability to tactically allocate among and within those major asset classes.

We have included in Figure 4 a list of the two sets of benchmarks for our current series of portfolios. Importantly, those wanting additional information in regard to our portfolios may visit our Web site, www.innealtacapital.com. There, one also may find investment fact sheets for each of our strategies.

4: Benchmark Compositions

Portfolio	Benchmark (index)	Benchmark (ETF)
Fixed Income Rotation	Barclays Capital U.S. Aggregate Bond TR	Vanguard Total Bond Market (BND)
Country Rotation	40% Barclays Capital U.S. Aggregate Bond TR 60% MSCI All−Country World Index ex. U.S. n	40% Vanguard Total Bond Market (BND)/ 60% iShares MSCI ACWI ex. U.S. Index (ACW
Sector Rotation Core	40% Barclays Capital U.S. Aggregate Bond TR/ 60% S&P 500	40% Vanguard Total Bond Market (BND)/ 60% SPDR S&P 500 ETF Trust
Sector Rotation Opportunity	40% Barclays Capital U.S. Aggregate Bond TR 60% S&P 500	40% Vanguard Total Bond Market (BND)/ 60% SPDR S&P 500 ETF Trust
Risk−Based Core Conservative	60% Barclays Capital U.S. Aggregate Bond TR/ 40% MSCI All−Country World Index net	60% Vanguard Total Bond Market (BND)/ 40% iShares MSCI ACWI Index Fund (ACWI)
Risk−Based Core Moderate	40% Barclays Capital U.S. Aggregate Bond TR 60% MSCI All−Country World Index net	40% Vanguard Total Bond Market (BND)/ 60% iShares MSCI ACWI Index Fund (ACWI)
Risk−Based Core Growth	20% Barclays Capital U.S. Aggregate Bond TR/ 80% MSCI All−Country World Index net	20% Vanguard Total Bond Market (BND)/ 80% iShares MSCI ACWI Index Fund (ACWI)
Risk−Based Opportunity Conservative	60% Barclays Capital U.S. Aggregate Bond TR 40% MSCI All−Country World Index net	60% Vanguard Total Bond Market (BND)/ 40% iShares MSCI ACWI Index Fund (ACWI)
Risk−Based Opportunity Moderate	40% Barclays Capital U.S. Aggregate Bond TR/ 60% MSCI All−Country World Index net	40% Vanguard Total Bond Market (BND)/ 60% iShares MSCI ACWI Index Fund (ACWI)
Risk−Based Opportunity Growth	20% Barclays Capital U.S. Aggregate Bond TR 80% MSCI All−Country World Index net	20% Vanguard Total Bond Market (BND)/ 80% iShares MSCI ACWI Index Fund (ACWI)
Country Rotation Fund (ICCIX)	40% Barclays Capital U.S. Aggregate Bond TR/ 60% S&P 500	40% Vanguard Total Bond Market (BND)/ 60% SPDR S&P 500 ETF Trust
Sector Rotation Fund (ICSIX)	40% Barclays Capital U.S. Aggregate Bond TR 60% MSCI All−Country World Index ex. U.S. n	40% Vanguard Total Bond Market (BND)/ 60% iShares MSCI ACWI ex. U.S. Index (ACW

RISK-RELATIVE REVIEW

When referencing the performance of our strategies versus their respective benchmarks, we must always remind readers that our focus is on the risk-relative outcome of our investment choices, with absolute relative performance, especially over shorter time frames, of secondary note. While absolute performance versus the benchmark becomes a more relevant target over longer time frames—three years and more—we believe such outperformance should never come at the expense of a focus on the relative risk of the investments we make for our clients, both as we make those investments and as we review the outcomes of those decisions.

Throughout most of the since-inception period, the prognosis for reward from much of the U.S. equity market space rarely squared with required assumption of expected risk for that return. Meantime, a relatively low yield environment, on a historical basis, made maneuvering the fixed income space that much more interesting. Even so, every portfolio outperformed its benchmark on a risk-relative basis, and most did so by a substantial margin. Moreover, the absolute performance of most portfolios also was notably better than that of their respective benchmarks. A summary of since-inception performance is shown in Figure 5.

5: Since-Inception Annualized Gross-of-Fee Performance Summary, versus Benchmark (ETF)

	Total Return			Standard Deviation			Return/Risk		
	Portfolio	Benchmark	Difference	Portfolio	Benchmark	Difference	Portfolio	Benchmark	Difference
Fixed Income Rotation	7.92	6.08	1.84	3.71	3.58	0.13	2.14	1.70	0.44
Country Rotation	9.33	4.94	4.39	4.64	10.81	−6.17	2.01	0.46	1.55
Sector Rotation Core	8.35	9.36	−1.00	4.60	10.20	−5.59	1.81	0.92	0.90
Sector Rotation Opportunity	9.55	9.36	0.20	5.43	10.20	−4.77	1.76	0.92	0.84
Risk−Based Core Conservative	10.47	6.75	3.72	9.00	6.08	2.91	1.16	1.11	0.05
Risk−Based Core Moderate	10.26	6.82	3.44	13.59	9.69	3.90	0.75	0.70	0.05
Risk−Based Core Growth	9.64	6.70	2.95	16.63	13.51	3.12	0.58	0.50	0.08
Risk−Based Opportunity Conservative	12.44	6.75	5.69	10.01	6.08	3.93	1.24	1.11	0.13
Risk−Based Opportunity Moderate	12.82	6.82	6.00	14.47	9.69	4.78	0.89	0.70	0.18
Risk−Based Opportunity Growth	12.53	6.70	5.83	17.58	13.50	4.07	0.71	0.50	0.22

As of 12.31.12. Inception of 12.31.09. Annualized gross-of-fee data. SOURCE: Innealta Capital using data from Bloomberg

ROTATION PORTFOLIOS

Turning to the portfolio-specific performance review, we'll start with the Rotation Portfolios, mostly because we imagine reader interest is focused there. As a reminder, the two core equity Rotation Portfolios—Sector and Country—utilize the Fixed Income Portfolio as a platform from which to access attractive risk-relative return opportunities among their respective equity investment opportunity sets. The Sector Opportunity Portfolio can be thought of as a specialized version of the Sector Core that utilizes leveraged equity ETFs when investing in specific sectors markets, thereby 'freeing up collateral' to augment portfolio returns with additional income or potential capital gain.

Fixed Income Portfolio

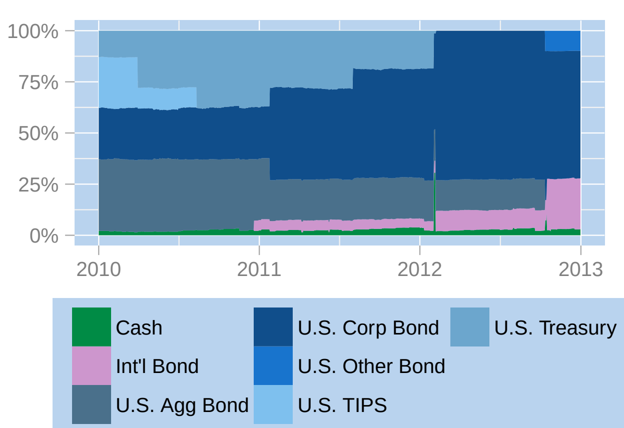
Among the Rotation portfolios, the most broadly relevant review pertains to the Fixed Income Portfolio, considering that it serves as the foundation for the two tactical equity portfolios. The Fixed Income Strategy aims to generate above-average yield with defined risk controls by consistently investing in those fixed income segments that present strong risk-adjusted performance potential. The quantitative framework driving portfolio investments seeks to ensure that portfolio-level yield, modified duration and volatility are objectively controlled.[2]

Fixed Income Portfolio Composition

We have been quite active in the Fixed Income Portfolio over the past few years in response to changing macroeconomic conditions and expectations, tactically shifting portfolio allocations to acquire what we perceive to be the optimal risk-relative return potential for the portfolio. Expressed in Figure 6, there have been several transitions in the portfolio in getting to its current allocation, which is comprised of a basket of fixed income ETFs that represent U.S. and non-U.S. corporate bonds (of both investment-grade and high-yield; and denominated in U.S. dollars and local currencies), in addition to mortgage-backed securities.

The first two early transitions in the portfolio involved the reduction and then removal of the U.S. TIPS exposure. In March 2010 we chose to reduce overall price risk in the portfolio, selling down the TIPS exposure and shifting the proceeds into the short end of the Treasury curve. Later that year, in August, this time looking at expectations for further accommodative activity from the Federal Reserve, while finding deflationary pressures more likely than the opposite, we removed TIPS entirely from the portfolio, putting in its place the long-dated U.S. Treasury (20+ years).

6: Fixed Income Portfolio Tactical Asset Allocation



As of 12.31.12. Inception of 12.31.09. SOURCE: Innealta Capital using data from Bloomberg

In December, we added further fundamental and currency diversification to the portfolio by sliding in the first non-U.S.-dollar-denominated emerging market bond exposure, selling down the Barclays Capital U.S. Aggregate (BarCap

[2]For greater detail on the construction of the Fixed Income Portfolio, readers may wish to revisit our March 2012 commentary, which is located on the Innealta Capital Web site at www.innealtacapital.com.

Agg, as represented in the portfolio by BND) position for required funds. The effort to shift further away from the more generic BND allocation continued the next month, as we added short- and intermediate-term corporate bonds to the mix, a move that also reduced the short-term U.S. Treasury exposure; the short-term U.S. investment grade corporate slice added yield without additional price risk.

For reasons we often have explained regarding the relative strength of U.S. corporate balance sheets and following the strong returns from our decision to allocate to the long end of the Treasury spectrum, we reallocated the 20+ year U.S. Treasury position to a similarly long-dated exposure in U.S. corporates and intermediate credits. We sat tight with those allocations through 2011. With the turn of the year, we conducted what was at that point the largest restructuring of the portfolio. In early February, we extended the duration of the portfolio by augmenting the allocation to the long end of the U.S. corporate segment in a shift from the 'credit' exposures we had maintained in the portfolio to purer corporate exposures. As part of the same decision, we also doubled our local currency emerging market debt position. In the last major update to the FI Portfolio, last November, we removed in its entirety the portfolio's allocation to the BarCap Agg and reined in the duration of the portfolio by reducing the allocation to longer-dated U.S. corporates as we shifted a larger portion of assets to non-U.S.-focused debt, which now stands at a quarter of the portfolio's funds. Also with this decision, we made our first investment in mortgage-backed securities. Altogether, the portfolio shift was made in recognition of the potential for enhanced volatility in fixed income markets based on the expectations for rising inflation held by many market participants—not including ourselves, of course, as we so often have expressed.

7: Fixed Income Portfolio Performance

Returns (annualized)

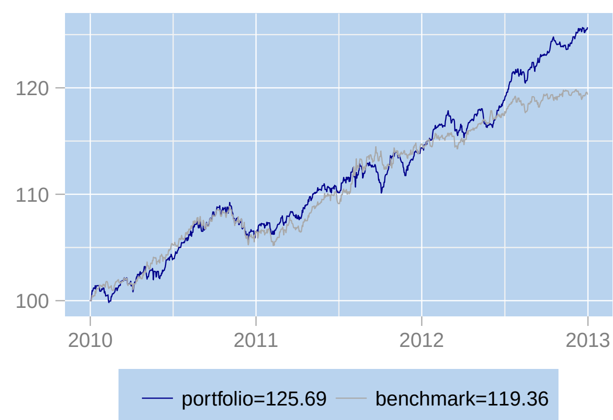
	QTD	1 year	Inception
gross of fee	2.12	9.91	7.92
net of fee	1.94	9.13	7.48
benchmark (ETF)	0.07	4.05	6.08
benchmark (index)	0.21	4.22	6.19

Return/Risk (annualized)

	QTD	1 year	Inception
gross of fee	1.91	3.39	2.14
net of fee	1.70	3.11	2.02
benchmark (ETF)	0.07	1.56	1.70
benchmark (index)	0.22	1.71	1.83

As of 12.31.12. Inception of 12.31.09. SOURCE: Innealta Capital using data from Bloomberg

8: Fixed Income Portfolio Cumulative Return



As of 12.31.12. Inception of 12.31.09. Gross-of-fee data. SOURCE: Innealta Capital using data from Bloomberg

Fixed Income Portfolio Performance Review

Through the three years, the Fixed Income Portfolio has generated a 7.92% annualized total return on a gross-of-fee basis and a 7.48% annualized total return on a net-of-fee basis, versus 6.08% annualized total return for the ETF-based benchmark and a 6.19% annualized total return for the index-based benchmark.

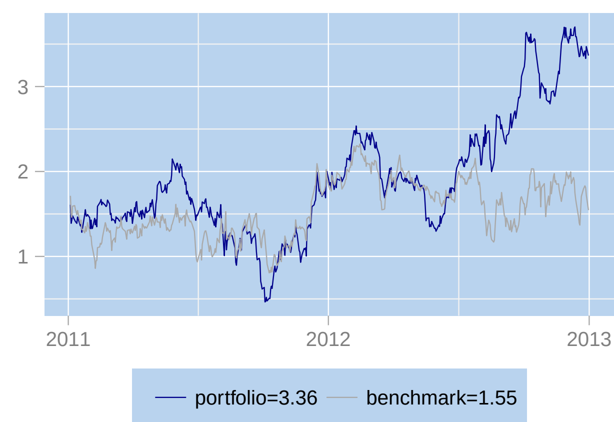
Key drivers of the portfolio's outperformance include our decisions to allocate to the U.S. investment grade and high yield segments, the latter in particular, as well our inclusion of non-U.S.-focused allocations, in addition to an active shift to a relatively longer duration for the portfolio overall.

Matching our expectations, trailing annualized daily standard deviation for the portfolio remained mostly tight with the benchmark over the time frame, with resulting return/risk metrics generally in-line or better than that of the benchmark. In fact, during only two brief periods on a rolling trailing 1-year basis did the portfolio's return/risk measure gap measurably below that of the BND, and has in fact traveled well above since mid-2012, details of which we show in Figure 10.

9: Fixed Income Portfolio Rolling 1-Year Standard Deviation

As of 12.31.12. Inception of 12.31.09. Annualized gross-of-fee data.
SOURCE: Innealta Capital using data from Bloomberg

10: Fixed Income Portfolio Rolling 1-Year Return/Risk



As of 12.31.12. Inception of 12.31.09. Annualized gross-of-fee data.
SOURCE: Innealta Capital using data from Bloomberg

Country Rotation Portfolio

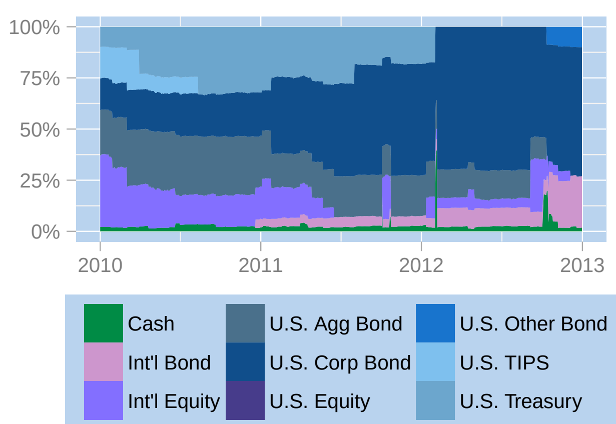
Having reviewed the Fixed Income Portfolio (FI) that serves as the foundation of the Country Rotation Portfolio (CRP), we'll focus on the results of the tactical rotations into various equity markets that we have made over the past three years. Again, we may choose to allocate portfolio funds (in 5% slices[3]) to those equity markets that we believe maintain prospective return/risk characteristics that exceed that of the fixed income components of the portfolio as a group.

Country Rotation Portfolio Composition

Over the past three years, the Investment Committee found ample reason and opportunity, considering the global macroeconomic pressures that have existed, to tactically rotate portfolio funds into specific country equity markets. We made a total of 23 individual tactical investments in 15 equity markets since inception at the end of 2009. Among the total were seven equity markets that were in the portfolio at inception. Allowing for the total return of those investments from their initiation in the strategy,[4] and using asset-weighted purchase and sale prices for those portfolios we manage internally, 22 of those 23 individual country markets saw positive total returns, the exception being that for Russia from April through December of 2012.

Among the more notable investments actually were groups of rotations, mostly in emerging markets, that we executed in the Autumns of 2011 and 2012. In both cases, the allocations were held for relatively short time frames and contributed strongly to absolute and risk-relative portfolio performance. The quick investments can be seen along with the overall long-term portfolio allocation in Figure 11.

11: Country Rotation Portfolio Tactical Asset Allocation



As of 12.31.12. Inception of 12.31.09. SOURCE: Innealta Capital using data from Bloomberg

Country Rotation Portfolio Performance Review

The goal is to outperform, on a risk-relative basis, the portfolio's benchmark over reasonable time frames. That would include the past three years, over which the cumulative outperformance of the CRP–even on an absolute basis—is significant. Through the three years, the Country Rotation Portfolio has generated a 9.33% annualized total return on a gross-of-fee basis and an 8.01% annualized total return on a net-of-fee basis, versus a 4.94% annualized total return for the ETF-based benchmark and a 5.41% annualized total return for the index-based benchmark.

Understanding that the fixed income portfolio held within the CRP is at all times the same as the stand-alone portfolio,

[3]Readers may wish to visit our Web site, at www.innealtacapital.com, to learn more about the methodology driving the management of this and our other portfolios.

[4]We have been running this strategy in its current form since February 2007. Data related to the position-level performance of those equity positions included in the portfolio as of the 12.31.09 inception utilize purchase prices that are the close prices on the day of the initiation of the position prior to the portfolio's inception.

12: Country Rotation Portfolio Performance

Returns (annualized)

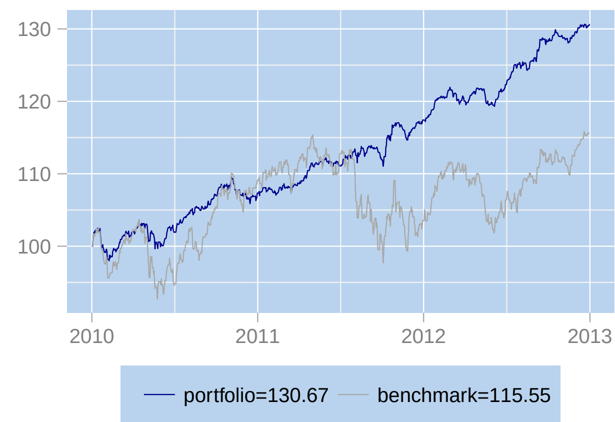
	QTD	1 year	Inception
gross of fee	1.90	11.29	9.33
net of fee	1.51	9.54	8.01
benchmark (ETF)	3.53	11.58	4.94
benchmark (index)	3.59	11.97	5.41

Return/Risk (annualized)

	QTD	1 year	Inception
gross of fee	1.49	3.27	2.01
net of fee	1.15	2.75	1.73
benchmark (ETF)	1.21	1.36	0.46
benchmark (index)	1.28	1.42	0.51

As of 12.31.12. Inception of 12.31.09. SOURCE: Innealta Capital using data from Bloomberg

13: Country Rotation Portfolio Cumulative Return

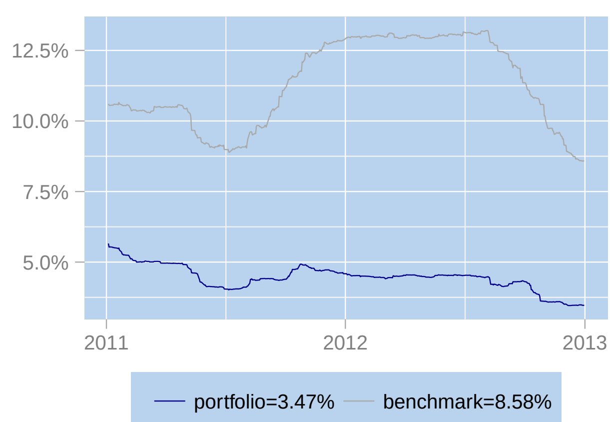


As of 12.31.12. Inception of 12.31.09. Gross-of-fee data. SOURCE: Innealta Capital using data from Bloomberg

the drivers of outperformance are the same. In addition, as we suggested earlier, the tactical rotations we made greatly enhanced risk-relative performance over the benchmark.

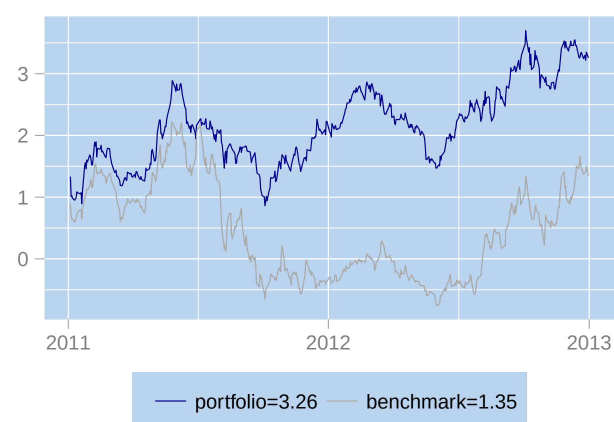
For most of 2011 and early 2012, the CRP underperformed the benchmark on a rolling trailing 1-year return basis. Even with the allocation to equity held in the portfolio through that period, though, overall portfolio volatility came in well below that of the benchmark; less than half, in fact, as we can see in Figure 14. As a result, the return/risk of the CRP on a gross-of-fee basis managed to exceed that of the benchmark on a rolling trailing 1-year basis throughout the past three years. And since the middle of 2011, as one can see in Figure 15, the gap in risk-adjusted performance has remained relatively large.

14: Country Rotation Portfolio Rolling 1-Year Standard Deviation



As of 12.31.12. Inception of 12.31.09. Annualized gross-of-fee data. SOURCE: Innealta Capital using data from Bloomberg

15: Country Rotation Portfolio Rolling 1-Year Return/Risk

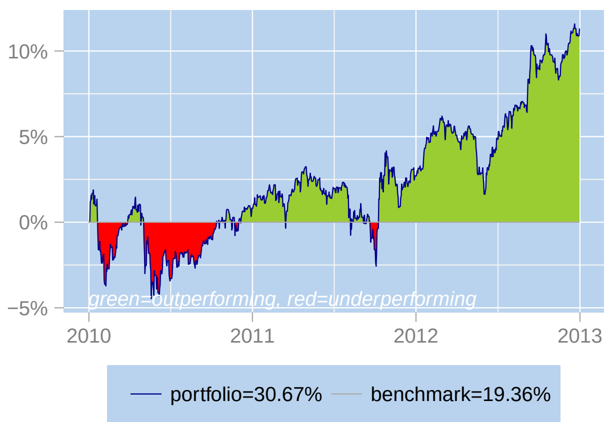


As of 12.31.12. Inception of 12.31.09. Annualized gross-of-fee data. SOURCE: Innealta Capital using data from Bloomberg

Country Rotation Portfolio, versus Fixed Income

Considering the Investment Committee directed the majority of portfolio funds to fixed income during the period of review, we also can compare portfolio performance against the BarCap Agg in order to contrast our active decisions in fixed income as well as equity against the performance of the broader U.S. fixed income market. Figure 16 relates the two and shows that, on a cumulative gross-of-fee total return basis, the CRP substantially outperformed the BND (again, an ETF representative of the BarCap Agg) over the three-year time frame. Not only that, but the since-inception return/risk profile of the CRP also bested that of BND; the metrics were 2.01 and 1.70, respectively.

16: Country Rotation Portfolio Cumulative Total Return, vs. BND



As of 12.31.12. Inception of 12.31.09. Gross-of-fee data. SOURCE: Innealta Capital using data from Bloomberg

Sector Rotation Core Portfolio

As we did with the Country Rotation Portfolio in the last section, we'll begin our review of the Sector Rotation Core Portfolio (SRP Core), with a comparison of the SRP Core against its benchmark. We achieved positive absolute returns from each of our nine individual tactical moves into equity, with later shifts faring relatively better, in a few instances providing a substantial boost to portfolio total return. Over the longer term, the tactical shifts, which include those decisions in the Fixed Income Portfolio, taken together resulted in the SRP Core's outperformance relative to its ETF-based benchmark on a risk-adjusted basis, as the portfolio turned in reasonably strong total return with substantially lower volatility.

17: Sector Rotation Core Portfolio Performance

Returns (annualized)

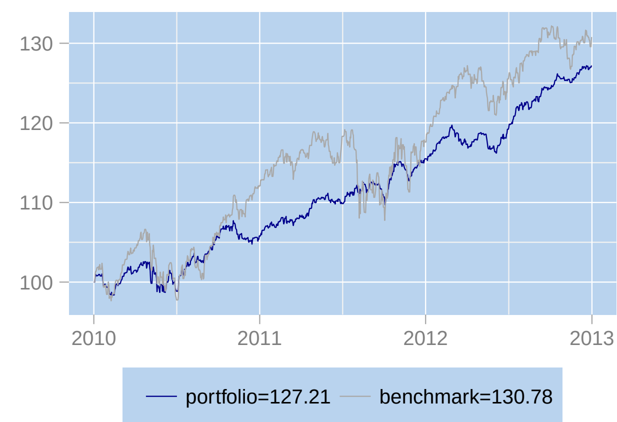
	QTD	1 year	Inception
gross of fee	2.36	10.15	8.35
net of fee	1.98	8.39	7.18
benchmark (ETF)	−0.21	11.21	9.36
benchmark (index)	−0.14	11.37	9.46

Return/Risk (annualized)

	QTD	1 year	Inception
gross of fee	2.06	3.09	1.81
net of fee	1.69	2.54	1.55
benchmark (ETF)	−0.06	1.60	0.92
benchmark (index)	−0.04	1.60	0.91

As of 12.31.12. Inception of 12.31.09. SOURCE: Innealta Capital using data from Bloomberg

18: Sector Rotation Core Portfolio Cumulative Return

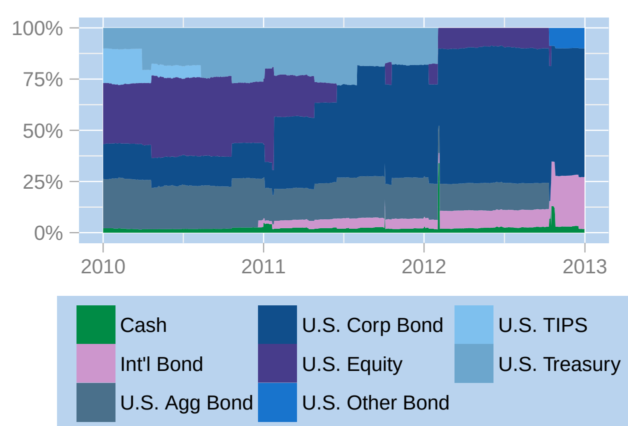


As of 12.31.12. Inception of 12.31.09. Gross-of-fee data. SOURCE: Innealta Capital using data from Bloomberg

Sector Rotation Core Portfolio Composition

We made a total of 9 individual tactical investments in 8 equity markets since inception at the end of 2009, all of which saw positive total returns. Among the total were three equity markets that were in the portfolio at inception. The average amount of equity held in the portfolio over the three years was 17.19%. We provide the longer-term allocation breakout in Figure 19.

19: Sector Rotation Core Portfolio Tactical Asset Allocation



As of 12.31.12. Inception of 12.31.09. SOURCE: Innealta Capital using data from Bloomberg

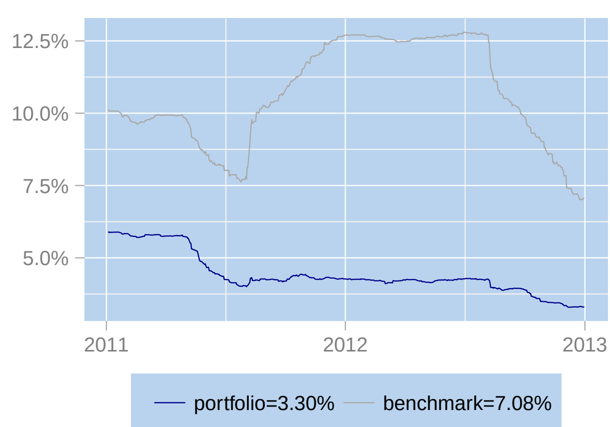
Sector Rotation Core Portfolio Performance Review

Through the three years, the SRP Core has generated an 8.35% annualized total return on a gross-of-fee basis and a 7.18% annualized total return on a net-of-fee basis, versus a 9.36% annualized total return for the ETF-based benchmark and a 9.46% annualized total return for the index-based benchmark. In terms of return/risk, the SRP Core saw 1.81 on a gross-of-fee basis, versus 0.92 for the ETF-based benchmark.

In response to the moderate underperformance on an absolute basis, we must remind readers that we remain disciplined in our approach to tactical equity investing, whether in domestic markets or abroad, and that our review of the quantitative framework mostly suggested that we would have had to take on too much risk to garner the expected reward, when we considered the potential for both relative to what we could achieve in fixed income.

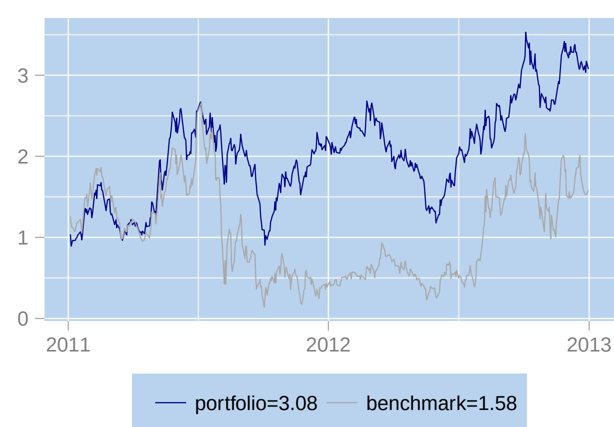
That stance is very well supported by the evidence of the risk-adjusted return, which always is the primary focus of our active investment decisions. By those measures the portfolio substantially outperformed, by about a 2-to-1 margin. Overall portfolio volatility was markedly below that of the benchmark, as one can see in Figure 20, and the return/risk of the SRP Core managed to exceed that of the benchmark on a rolling trailing 1-year basis for most of the past three years. Since the middle of 2011 the gap in risk-adjusted performance, shown in Figure 21, has remained relatively large.

20: Sector Rotation Core Rolling 1-Year Standard Deviation



As of 12.31.12. Inception of 12.31.09. Annualized gross-of-fee data.
SOURCE: Innealta Capital using data from Bloomberg

21: Sector Rotation Core Rolling 1-Year Return/Risk

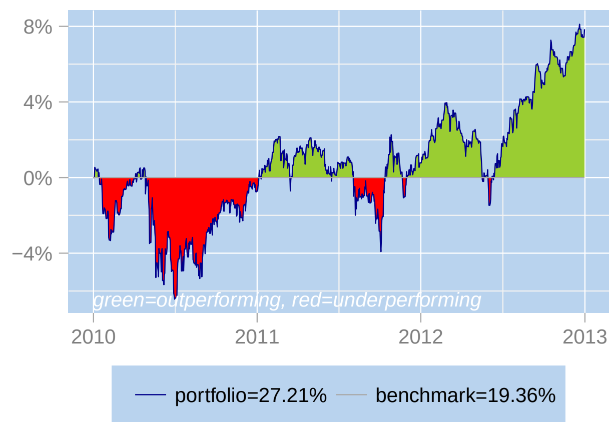


As of 12.31.12. Inception of 12.31.09. Annualized gross-of-fee data.
SOURCE: Innealta Capital using data from Bloomberg

Sector Rotation Core Portfolio, versus Fixed Income

Using a similar rationale, we can make the same comparison against the broader U.S. fixed income market that we did during our review of the CRP. Figure 28 indicates that, on a cumulative gross-of-fee total return basis, the SRP outperformed the BND by a large margin over the three-year time frame. The since-inception return/risk profile of the SRP was better than that of BND, too, at 1.81 and 1.70, in that order.

22: Sector Rotation Core Cumulative Total Return, vs. BND



As of 12.31.12. Inception of 12.31.09. Gross-of-fee data. SOURCE: Innealta Capital using data from Bloomberg

Sector Rotation Opportunity Portfolio

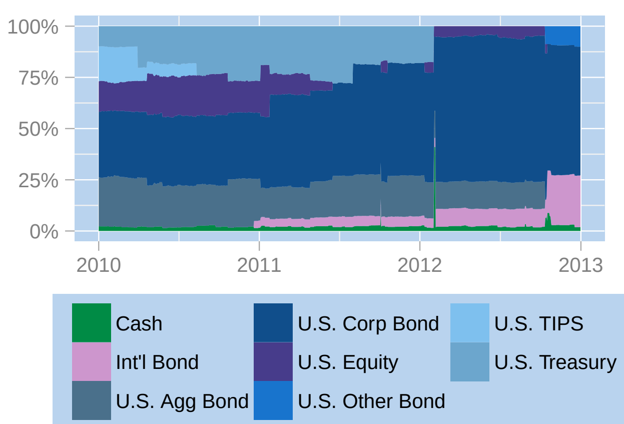
We execute the same tactical decisions in the Sector Rotation Opportunity Portfolio (SRP Opportunity) that we do in the SRP Core Portfolio, instead utilizing leveraged equity ETFs when turning on equity in the SRP Opportunity. These ETFs seek to provide two times (2x) the daily total return of the underlying sector indices. This feature allows us add the same beta exposure to an equity market by allocating half the position we do in the SRP Core (5% in the Opportunity, versus 10% in the Core). We thus free up portfolio collateral to allocate to additional income-producing or otherwise further-diversifying exposures. For the past three years, that additional collateral was allocated to the U.S. corporate high yield market.

Importantly, because of the nature of the leveraged ETFs, we must take particular care in maintaining the desired beta exposure. That care generally requires that we rebalance those positions back to target more often than we might in the SRP Core Portfolio.

Sector Rotation Opportunity Portfolio Shifts

The longer-term portfolio allocation breakout can be seen in Figure 23. Very much the same as in the SRP Core, we made 9 individual tactical investments in 8 equity markets over the three years, instead using two-times leveraged ETFs to gain the exposures, and otherwise allocating the 5% freed-up collateral to U.S. corporate high yield. Here again, each equity investment drew a positive total return.

23: Sector Rotation Opportunity Tactical Asset Allocation



As of 12.31.12. Inception of 12.31.09. SOURCE: Innealta Capital using data from Bloomberg

Sector Rotation Opportunity Portfolio Performance Review

Judging both the decisions to tactically invest in equity markets and to use leveraged ETFs to do so, our approach was a very effective one. The SRP Opportunity Portfolio's total return on a gross-of-fee basis exceeded that of the benchmark for the three-year period as measured on both risk-adjusted and absolute bases. The SRP Opportunity Portfolio generated a 9.55% annualized total return on a gross-of-fee basis and a 8.30% annualized total return on a net-of-fee basis, versus a 9.36% annualized total return for the ETF-based benchmark and a 9.46% annualized total return for the index-based benchmark.

In terms of return/risk, the SRP Opportunity saw 1.76 on a gross-of-fee basis, versus 0.92 for the ETF-based benchmark. We can see in Figure 27 that, aside from the early part of 2011, the SRP Opportunity Portfolio maintained a large gap over the benchmark in terms of the trailing 1-year return/risk.

24: Sector Rotation Opportunity Portfolio Performance

Returns (annualized)

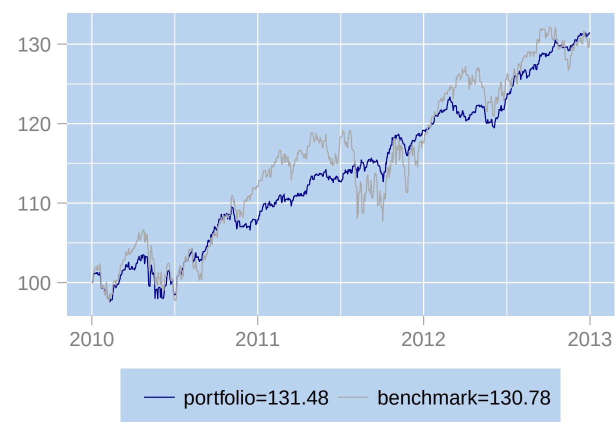
	QTD	1 year	Inception
gross of fee	2.26	10.35	9.55
net of fee	1.99	8.55	8.30
benchmark (ETF)	−0.21	11.21	9.36
benchmark (index)	−0.14	11.37	9.46

Return/Risk (annualized)

	QTD	1 year	Inception
gross of fee	1.95	2.96	1.76
net of fee	1.70	2.43	1.53
benchmark (ETF)	−0.06	1.60	0.92
benchmark (index)	−0.04	1.60	0.91

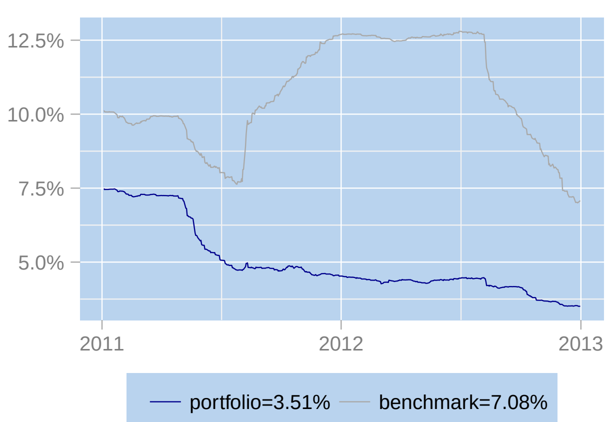
As of 12.31.12. Inception of 12.31.09. SOURCE: Innealta Capital using data from Bloomberg

25: Sector Rotation Opportunity Portfolio Cumulative Return



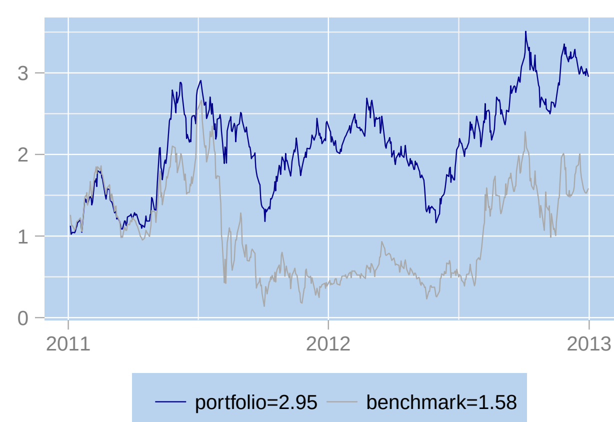
As of 12.31.12. Inception of 12.31.09. Gross-of-fee data. SOURCE: Innealta Capital using data from Bloomberg

26: Sector Rotation Opportunity Rolling 1-Year Standard Deviation



As of 12.31.12. Inception of 12.31.09. Annualized gross-of-fee data. SOURCE: Innealta Capital using data from Bloomberg

27: Sector Rotation Opportunity Rolling 1-Year Return/Risk

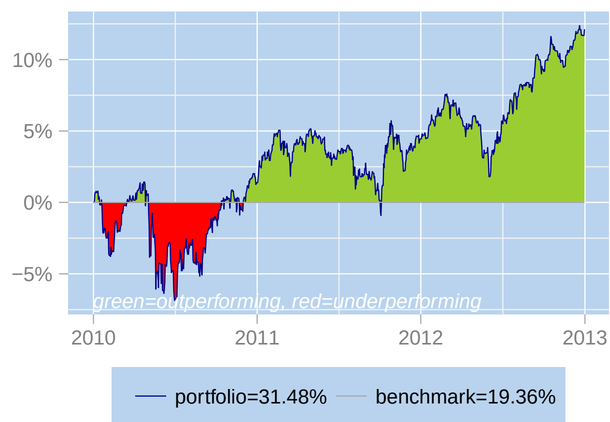


As of 12.31.12. Inception of 12.31.09. Annualized gross-of-fee data. SOURCE: Innealta Capital using data from Bloomberg

Sector Rotation Opportunity Portfolio, versus Fixed Income

We repeat the comparison against the BND here, showing again substantial outperformance relative to the U.S. fixed income aggregate on both a risk-adjusted and an absolute basis. Since-inception return/risk was better for the SRP Opportunity Portfolio as well, at 1.76, versus the 1.70 achieved by the BND.

28: Sector Rotation Opportunity Cumulative Total Return, vs. BND



As of 12.31.12. Inception of 12.31.09. Gross-of-fee data. SOURCE: Innealta Capital using data from Bloomberg

RISK-BASED PORTFOLIOS

In our January 2012 commentary, we discussed the fundamental concepts that factor into our management of the Risk-Based Portfolios. That review defines the methodology behind the construction of these portfolios, which is very much distinct from that of the Rotation Portfolios. We won't revisit most of that review; we will instead focus on the particulars of the results of that methodology that make the Risk-Based Portfolios unique.

By design, the Risk-Based Portfolios must at all times have some exposure to equities, unlike the Rotation Portfolios, which may at any time be 100% invested in equities, or 100% invested in fixed income and other asset classes. The choices of which equities to include in the portfolios, fixed income and other asset classes as well, are made as part of a regular and otherwise marketplace-prompted review of the asset class universe in the context of the Investment Committee's broader global macroeconomic outlook, our equity- and fixed-income-oriented quantitative frameworks, as well as the availability of relevant ETFs.

From this selection of interesting asset classes, the Committee applies a proprietary framework to devise a portfolio of these asset classes that results in various *optimal* portfolios along a spectrum of risk tolerances. These portfolios become what we refer to as our Secular Tactical Asset Allocations, or STAAs. And the STAAs are the basis against which we tactically under- or overweight the equity asset classes (there is no neutral equity exposure), based upon the Investment Committee's review of our quantitative dashboard.

The STAA has added considerable performance over the benchmarks over the past three years. Through time, the STAA has forced the equity allocations away from developed European markets and the U.S. to emerging markets and the developed markets in Asia, generating an incrementally positive impact on returns. The same is true for the fixed income allocations, where the decisions the Investment Committee made in improving the portfolio mix provided measurable outperformance relative to the broader fixed income market.

Risk-Based Core Portfolios

Though their respective constructs might be different, the performance review of the Risk-Based Portfolios is similar. We'll thus save paper by providing an overview of the performance of the three Risk-Base Core Portfolio via Figure 29. We'll then dive into a more specific review of the Risk-Based Core Moderate Portfolio and direct readers to the extensive supplemental report that we have produced as a companion to this review, which provides similar details for the other two portfolios.

29: Risk-Based Core Portfolios: Since-Inception Annualized Gross-of-Fee Performance Summary, versus Benchmark (ETF)

	Total Return			Standard Deviation			Return/Risk		
	Portfolio	Benchmark	Difference	Portfolio	Benchmark	Difference	Portfolio	Benchmark	Difference
Risk−Based Core Conservative	10.47	6.75	3.72	9.00	6.08	2.91	1.16	1.11	0.05
Risk−Based Core Moderate	10.26	6.82	3.44	13.59	9.69	3.90	0.75	0.70	0.05
Risk−Based Core Growth	9.64	6.70	2.95	16.63	13.51	3.12	0.58	0.50	0.08

As of 12.31.12. Inception of 12.31.09. Annualized gross-of-fee data. SOURCE: Innealta Capital using data from Bloomberg

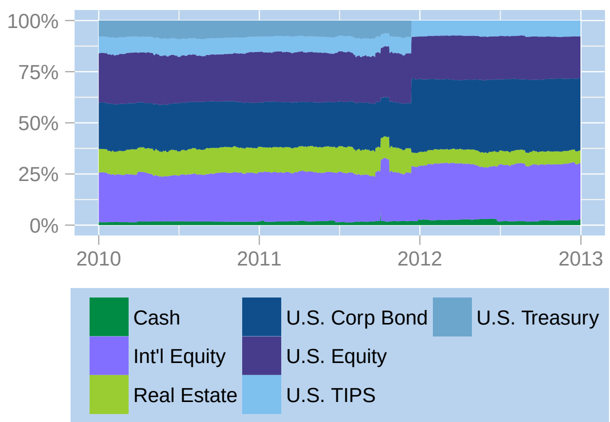
RB Core Moderate Portfolio Composition

As we noted above, the Investment Committee has maneuvered the Risk-Based Portfolios to asset classes it has found representing the best mix of risk-relative return potential. Changes to the portfolio have come both by way of the STAA and the tactical under- and overweight in equity positions. The composition of the RB Moderate Portfolio is shown in Figure 30.

RB Core Moderate Portfolio Performance Review

Compared to the benchmark, the RB Core Moderate Portfolio strongly outperformed on an absolute basis and was at worst about in line on a risk-adjusted basis. The outperformance was driven both by the active decisions incorporated

30: RB Core Moderate Portfolio Tactical Asset Allocation



As of 12.31.12. Inception of 12.31.09. SOURCE: Innealta Capital using data from Bloomberg

into the STAA, in addition to the tactical decisions we made in under- and overweighting individual equity classes over thee three years.

Since inception, the portfolio saw a 10.26% annualized total return on a gross-of-fee basis and a 9.28% annualized total return on a net-of-fee basis, versus 6.82% annualized total return for the ETF-based benchmark and a 7.00% annualized total return for the index-based benchmark.

31: RB Core Moderate Portfolio Performance

Returns (annualized)

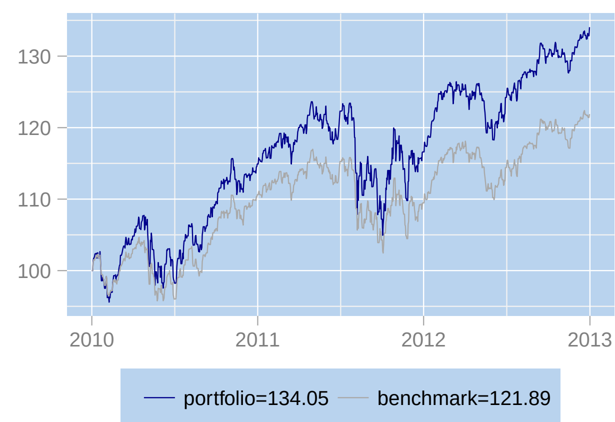
	QTD	1 year	Inception
gross of fee	3.21	14.97	10.26
net of fee	3.00	13.99	9.28
benchmark (ETF)	1.76	11.34	6.82
benchmark (index)	1.81	11.49	7.00

Return/Risk (annualized)

	QTD	1 year	Inception
gross of fee	1.03	1.79	0.76
net of fee	0.96	1.68	0.68
benchmark (ETF)	0.63	1.59	0.70
benchmark (index)	0.65	1.63	0.74

As of 12.31.12. Inception of 12.31.09. SOURCE: Innealta Capital using data from Bloomberg

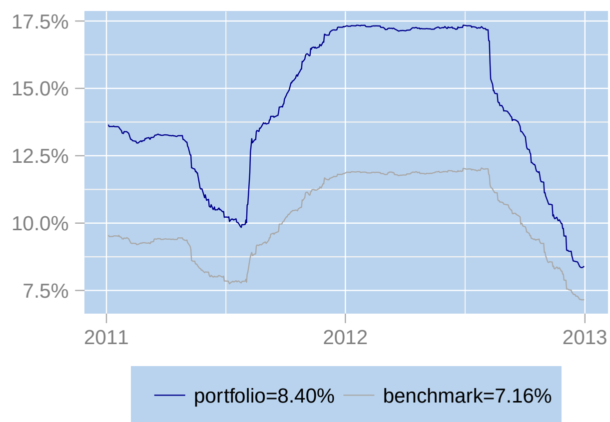
32: RB Core Moderate Portfolio Cumulative Return



As of 12.31.12. Inception of 12.31.09. Gross-of-fee data. SOURCE: Innealta Capital using data from Bloomberg

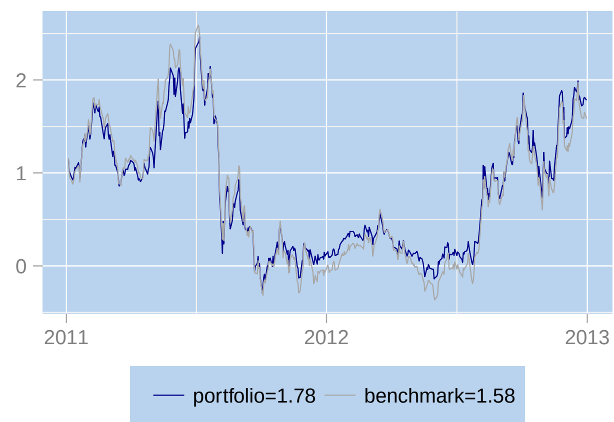
Though we strive to achieve both objectives—reduced risk and greater return—by design the RB Portfolios may necessarily assume some larger amount of risk with the objective of besting the return/risk profile of the benchmark. As a result, though the portfolio shows a heavier risk profile than the benchmark, a feature we chart in Figure 33, the risk-relative returns were mostly in line with the benchmark throughout the period of review, and in fact beat that of the benchmark, on a gross-of-fee basis, over the three-year period (highlighted back in Figure 31).

33: RB Core Moderate Portfolio Rolling 1-Year Standard Deviation



As of 12.31.12. Inception of 12.31.09. Annualized gross-of-fee data.
SOURCE: Innealta Capital using data from Bloomberg

34: RB Core Moderate Portfolio Rolling 1-Year Return/Risk



As of 12.31.12. Inception of 12.31.09. Annualized gross-of-fee data.
SOURCE: Innealta Capital using data from Bloomberg

Risk-Based Opportunity Moderate Portfolio

The Risk-Based Opportunity Portfolio operates in a manner very similar to that of the Sector Opportunity Portfolio, with one large exception: there always is equity in the RB Portfolios, such that there always is extra collateral to deploy elsewhere for increased income and/or diversification, even when the equity classes are in the underweight state. Also different, the equity classes we utilize in the RB Opportunity Portfolios seek to provide three times (3x) the daily total return of the underlying equity market indices (versus the 2x offerings in the SRP). Because not all the markets in the RB Core Portfolios have respective leveraged ETFs, the list of equity markets in the RB Opportunity Portfolios is a bit different. We also make use of a leveraged ETF for the REIT exposure in the portfolio. Again, as is the case with the Sector Opportunity Portfolio, the Investment Committee takes great care in managing the portfolio allocations to gain the desired beta exposure among the equity classes.

Because there generally is more freed up collateral to deploy in the RB Opportunity Portfolios, versus the Sector Opportunity Portfolios, we are able to layer in multiple additional asset classes over the Core Portfolio. Among the additions have been the BarCap Agg, U.S. corporate high yield, gold and emerging market non-dollar debt. Our decisions to include each of these allocations has boosted considerably portfolio total return over the past three years.

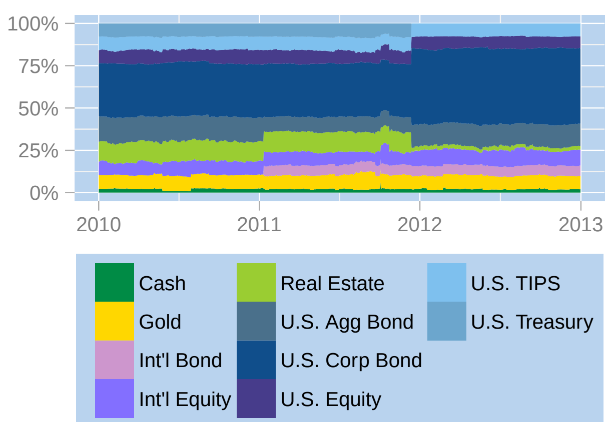
For the remainder of the RB Opportunity review, we'll focus on the RB Opportunity Moderate Portfolio. First, we show in Figure 35 a summary of the risk-relative performance of the Risk-Based Opportunity series.

35: Risk-Based Opportunity Portfolios: Since-Inception Annualized Gross-of-Fee Performance Summary, versus Benchmark (ETF)

	Total Return			Standard Deviation			Return/Risk		
	Portfolio	Benchmark	Difference	Portfolio	Benchmark	Difference	Portfolio	Benchmark	Difference
Risk–Based Opportunity Conservative	12.44	6.75	5.69	10.01	6.08	3.93	1.24	1.11	0.13
Risk–Based Opportunity Moderate	12.82	6.82	6.00	14.47	9.69	4.78	0.89	0.70	0.18
Risk–Based Opportunity Growth	12.53	6.70	5.83	17.58	13.50	4.07	0.71	0.50	0.22

As of 12.31.12. Inception of 12.31.09. Annualized gross-of-fee data. SOURCE: Innealta Capital using data from Bloomberg

36: RB Opportunity Moderate Tactical Asset Allocation



As of 12.31.12. Inception of 12.31.09. SOURCE: Innealta Capital using data from Bloomberg

RB Opportunity Moderate Portfolio Composition

Charted in Figure 36, the additional collateral was used to fund ownership of additional fixed income aggregate, real estate and gold positions, as well as additional high yield. As is the case with the Sector Opportunity Portfolio, we were successful in augmenting performance with the redeployments.

RB Opportunity Moderate Portfolio Performance Review

Figure 37 shows the cumulative total return since inception on a gross-of-fee basis of the RB Opportunity Moderate relative to its ETF-based benchmark. Comparing the return/risk profile of the RB Opportunity Moderate Portfolio, versus its ETF-based benchmark, we see that, while the Opportunity portfolio expressed more risk (as measured by the resulting annualized daily standard deviation), the resulting return more than made up for it. For the RB Opportunity Moderate Portfolio, return/risk was 0.89 on a gross-of-fee basis (see Figure 37), versus 0.70 for the ETF-based RB Moderate Benchmark.

37: RB Opportunity Moderate Portfolio Performance

Returns (annualized)

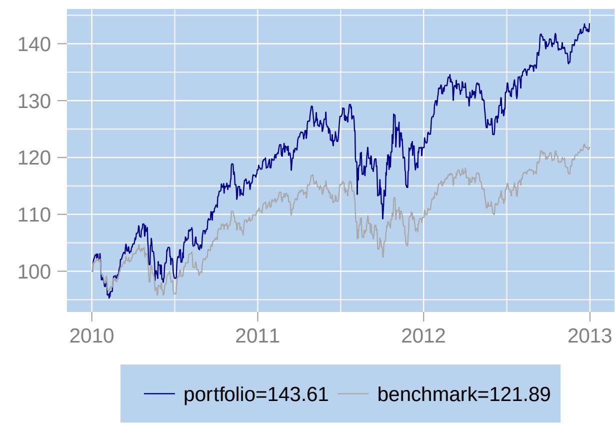
	QTD	1 year	Inception
gross of fee	2.93	17.96	12.82
net of fee	2.45	15.78	11.44
benchmark (ETF)	1.76	11.34	6.82
benchmark (index)	1.81	11.49	7.00

Return/Risk (annualized)

	QTD	1 year	Inception
gross of fee	0.86	1.85	0.89
net of fee	0.70	1.62	0.79
benchmark (ETF)	0.63	1.59	0.70
benchmark (index)	0.65	1.63	0.74

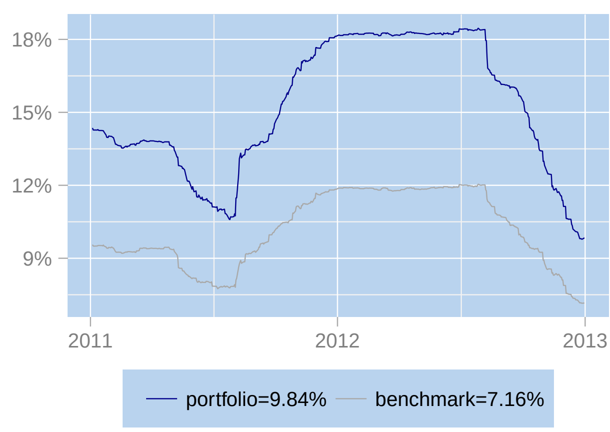
As of 12.31.12. Inception of 12.31.09. SOURCE: Innealta Capital using data from Bloomberg

38: RB Opportunity Portfolio Cumulative Return



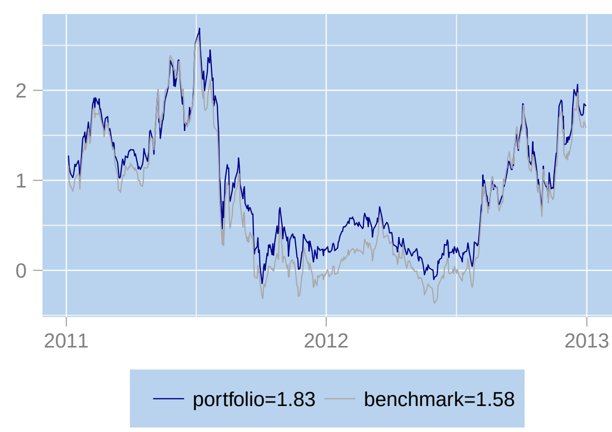
As of 12.31.12. Inception of 12.31.09. Gross-of-fee data. SOURCE: Innealta Capital using data from Bloomberg

39: RB Opportunity Moderate Rolling 1-Year Standard Deviation



As of 12.31.12. Inception of 12.31.09. Annualized gross-of-fee data. SOURCE: Innealta Capital using data from Bloomberg

40: RB Opportunity Moderate Portfolio Rolling 1-Year Return/Risk



As of 12.31.12. Inception of 12.31.09. Annualized gross-of-fee data. SOURCE: Innealta Capital using data from Bloomberg

CONCLUSION

We are pleased that we have been able to generate over the past three years the risk-relative outcomes detailed in this report. As we look forward to similar achievements over the next three years and beyond, we remain very grateful for the trust that you have placed in Innealta Capital.

TRADE UPDATE

For reasons similar to those driving our recent portfolio allocation decisions related to the Fixed Income Portfolio, we recently have reallocated the fixed income portions of the Risk-Based Portfolios. To varying extents among the Risk-Based Core Portfolios, we reduced our long-term U.S. corporate investment grade and U.S. corporate high yield exposures, in favor of allocations to local-currency emerging market debt, short-term U.S. corporate investment grade debt, U.S. TIPS and real estate. The Risk-Based Opportunity portfolios reflect these changes; in addition, we chose to redistribute the extra collateral freed by using leveraged ETFs. We removed the U.S. Aggregate position (BND) from the portfolios entirely and reduced the U.S. corporate high yield allocation, while enhancing the non-U.S. allocation with the newer exposures we recently added to the Fixed Income Portfolio.

The rising inflation expectations among market participants have the potential to impart increased volatility in fixed income markets and we therefore have actively adjusted the portfolio in response. We believe that any actual increase in inflation would be unsustainable and leave open the possibility of a readjustment of portfolio allocations (e.g. potentially extending duration) were conditions to prove more accommodative.

Since-Inception Gross-of-Fee Performance Summary, versus Benchmark (ETF)

	Latest Quarter			Latest Year			Since Inception (annualized)		
	Portfolio	Benchmark	Difference	Portfolio	Benchmark	Difference	Portfolio	Benchmark	Difference
Fixed Income Rotation	2.12	0.07	2.04	9.91	4.05	5.86	7.92	6.08	1.84
Country Rotation	1.90	3.53	−1.62	11.29	11.58	−0.29	9.33	4.94	4.39
Sector Rotation Core	2.36	−0.21	2.58	10.15	11.21	−1.06	8.35	9.36	−1.00
Sector Rotation Opportunity	2.26	−0.21	2.47	10.35	11.21	−0.86	9.55	9.36	0.20
Risk−Based Core Conservative	2.40	1.20	1.20	12.92	8.95	3.97	10.47	6.75	3.72
Risk−Based Core Moderate	3.21	1.76	1.44	14.97	11.34	3.63	10.26	6.82	3.44
Risk−Based Core Growth	3.77	2.33	1.44	16.29	13.68	2.61	9.64	6.70	2.95
Risk−Based Opportunity Conservative	2.11	1.20	0.91	14.71	8.95	5.76	12.44	6.75	5.69
Risk−Based Opportunity Moderate	2.93	1.76	1.16	17.96	11.34	6.62	12.82	6.82	6.00
Risk−Based Opportunity Growth	3.31	2.33	0.98	19.34	13.68	5.65	12.53	6.70	5.83

Since-Inception Gross-of-Fee Risk Summary

Since Inception, versus Benchmark (ETF)

	Sharpe (portfolio)	Sharpe (benchmark)	Sharpe (difference)	Alpha (annualized)	Beta	Information Ratio	Upside Capture	Downside Capture
Fixed Income Rotation	2.11	1.67	0.44	4.66	0.52	0.46	0.56	0.53
Country Rotation	1.98	0.45	1.53	7.88	0.24	0.36	0.14	0.36
Sector Rotation Core	1.79	0.91	0.88	5.36	0.30	−0.21	0.18	0.44
Sector Rotation Opportunity	1.74	0.91	0.83	6.07	0.35	−0.06	0.22	0.50
Risk−Based Core Conservative	1.16	1.10	0.06	1.67	1.30	0.77	1.55	1.12
Risk−Based Core Moderate	0.75	0.69	0.05	1.81	1.26	0.54	1.55	1.06
Risk−Based Core Growth	0.58	0.49	0.09	2.31	1.12	0.43	1.23	1.01
Risk−Based Opportunity Conservative	1.23	1.10	0.14	2.64	1.44	0.99	1.97	1.18
Risk−Based Opportunity Moderate	0.88	0.69	0.19	3.72	1.34	0.83	1.97	1.09
Risk−Based Opportunity Growth	0.71	0.49	0.22	4.73	1.18	0.75	1.60	1.03

Since Inception, versus S&P 500

	Sharpe (portfolio)	Sharpe (benchmark)	Sharpe (difference)	Alpha (annualized)	Beta	Information Ratio	Upside Capture	Downside Capture
Fixed Income Rotation	2.11	0.58	1.53	7.49	0.03	−0.31	0.01	−0.05
Country Rotation	1.98	0.57	1.40	7.63	0.13	−0.25	0.03	0.25
Sector Rotation Core	1.79	0.58	1.21	6.41	0.15	−0.31	0.03	0.32
Sector Rotation Opportunity	1.74	0.58	1.16	7.29	0.18	−0.24	0.04	0.38
Risk−Based Core Conservative	1.15	0.58	0.58	5.12	0.45	−0.20	0.15	0.74
Risk−Based Core Moderate	0.75	0.58	0.17	2.29	0.70	−0.21	0.36	0.91
Risk−Based Core Growth	0.57	0.58	0.00	0.23	0.87	−0.29	0.60	0.97
Risk−Based Opportunity Conservative	1.23	0.58	0.66	6.64	0.48	−0.02	0.18	0.78
Risk−Based Opportunity Moderate	0.88	0.58	0.30	4.50	0.73	0.13	0.44	0.93
Risk−Based Opportunity Growth	0.71	0.58	0.13	2.75	0.89	0.19	0.76	0.98

Since Inception, versus MSCI All Country World Index ex. U.S.

	Sharpe (portfolio)	Sharpe (benchmark)	Sharpe (difference)	Alpha (annualized)	Beta	Information Ratio	Upside Capture	Downside Capture
Country Rotation	1.98	0.16	1.82	8.59	0.12	0.16	0.03	0.27

Since Inception, versus MSCI MSCI All Country World Index

	Sharpe (portfolio)	Sharpe (benchmark)	Sharpe (difference)	Alpha (annualized)	Beta	Information Ratio	Upside Capture	Downside Capture
Risk−Based Core Conservative	1.16	0.36	0.80	7.08	0.45	0.20	0.16	0.72
Risk−Based Core Moderate	0.75	0.36	0.39	5.34	0.71	0.36	0.37	0.89
Risk−Based Core Growth	0.58	0.36	0.21	3.93	0.87	0.39	0.61	0.96
Risk−Based Opportunity Conservative	1.23	0.36	0.87	8.73	0.50	0.40	0.20	0.76
Risk−Based Opportunity Moderate	0.88	0.36	0.52	7.61	0.75	0.68	0.46	0.91
Risk−Based Opportunity Growth	0.71	0.36	0.35	6.50	0.92	0.74	0.79	0.97

IMPORTANT INFORMATION

All performance data as of 12.31.12. The information provided comes from independent sources believed reliable, but accuracy is not guaranteed and has not been independently verified. The security information, portfolio management and tactical decision process are opinions of Innealta Capital (Innealta), a division of AFAM Capital, Inc. and the performance results of such recommendations are subject to risks and uncertainties. For more information about AFAM Capital, Inc. please visit afamcapital.com. Past performance is not a guarantee of future results.

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Sector ETFs, such as Real Estate Investment Trusts ("REITs") are subject to industry concentration risk, which is the chance that stocks comprising the sector ETF will decline due to adverse developments in the respective industry.

The use of leverage (borrowed capital) by an exchange-traded fund increases the risk to the fund. The more a fund invests in leveraged instruments, the more the leverage will magnify gains or losses on those investments.

Country/Regional risk is the chance that world events such as political upheaval or natural disaster will adversely affect the value of securities issued by companies in foreign countries or regions. Country/Regional risk is especially high in emerging markets.

Emerging markets risk is that chance that stocks of companies located in emerging markets will be substantially more volatile, and substantially less liquid, than the stocks of companies located in more developed foreign markets.

Securities rated below investment grade, commonly referred to as "junk bonds", may involve greater risks than securities in higher rating categories. Junk bonds are regarded as speculative in nature, involve greater risk of default by the issuing entity, and may be subject to greater market fluctuations than higher rated fixed income securities.

Diversification does not protect against loss in declining markets.

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Innealta is an asset manager specializing in the active management of portfolios of Exchange Traded Funds. Innealta's competitive advantage is its quantitative investment strategy driven by a proprietary econometric model created by Dr. Gerald Buetow, Innealta's Chief Investment Officer. The firm's products include Tactical ETF Portfolios, a U.S. Sector Rotation Portfolio and a Country Rotation Portfolio. Innealta aims to beat appropriate benchmark performance by tactically managing portfolios utilizing a proprietary econometric model. By harnessing the benefits of ETFs, Innealta is able to provide investors with exposure to multiple asset classes and investment styles in highly liquid, low cost portfolios.

For more information, contact Scott Silverman at 949.540.7307 or your financial advisor.

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