

SECTOR ROTATION PORTFOLIO



Innealta
C A P I T A L

SUMMER 2016 EDITION

INNEALTA CAPITAL

We are a quantitative asset manager specializing in risk-managed, global investment solutions implemented via exchange-traded funds. We strive to provide clients with high risk-adjusted returns and diversification opportunities in varying market environments.

Experience: For over a decade, Innealta Capital has advised and managed global investment portfolios of exchange-traded funds. Our multidisciplinary team possesses several advanced degrees, including PhD, MBA, and MS from top academic institutions. Our portfolio managers have an average of thirteen years of industry experience.

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

Process: We use our quantitative framework to inform our process. This repeatable process merges proprietary forecasts with portfolio optimization, trade cost analysis, and risk monitoring. Our use of exchange-traded funds rather than baskets of individual stocks improves transparency, liquidity, and cost efficiency.

INVESTMENT TEAM

CHIEF INVESTMENT OFFICER

Vito Sciaraffia, PhD // Chief Investment Officer

- 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 were Dimensional Fund Advisors, Citigroup, and JP Morgan
- Former Assistant Professor of Finance at the McCombs School of Business at The University of Texas at Austin

PORTFOLIO MANAGERS

Joshua Kocher // Portfolio Manager

- MBA in Finance from Columbia University and BS in Chemical Engineering from the University of Virginia
- Prior employers were MKP Capital, Credit Suisse, and Susquehanna Investment Group
- Thirteen years of industry experience as proprietary trader, associate portfolio manager, and portfolio manager

Jason Clark, CFA // Portfolio Manager

- BS in Finance from the University of West Florida
- Prior employers were A.G. Edwards, Edward Jones, and the United States Navy
- Fifteen years of industry experience as equity research analyst, fixed income trader, and portfolio manager

RESEARCH TEAM

Ray Chen // Quantitative Research Analyst

- MS in Statistics from Rice University and BS in Physics from Michigan State University
- Prior employer was Merrill Lynch

Aaron Steinman // Research Analyst

- MS in Finance and a BA in Economics from The University of Texas at Austin
- Prior employer was Durbin Bennett Peterson – Private Wealth Management

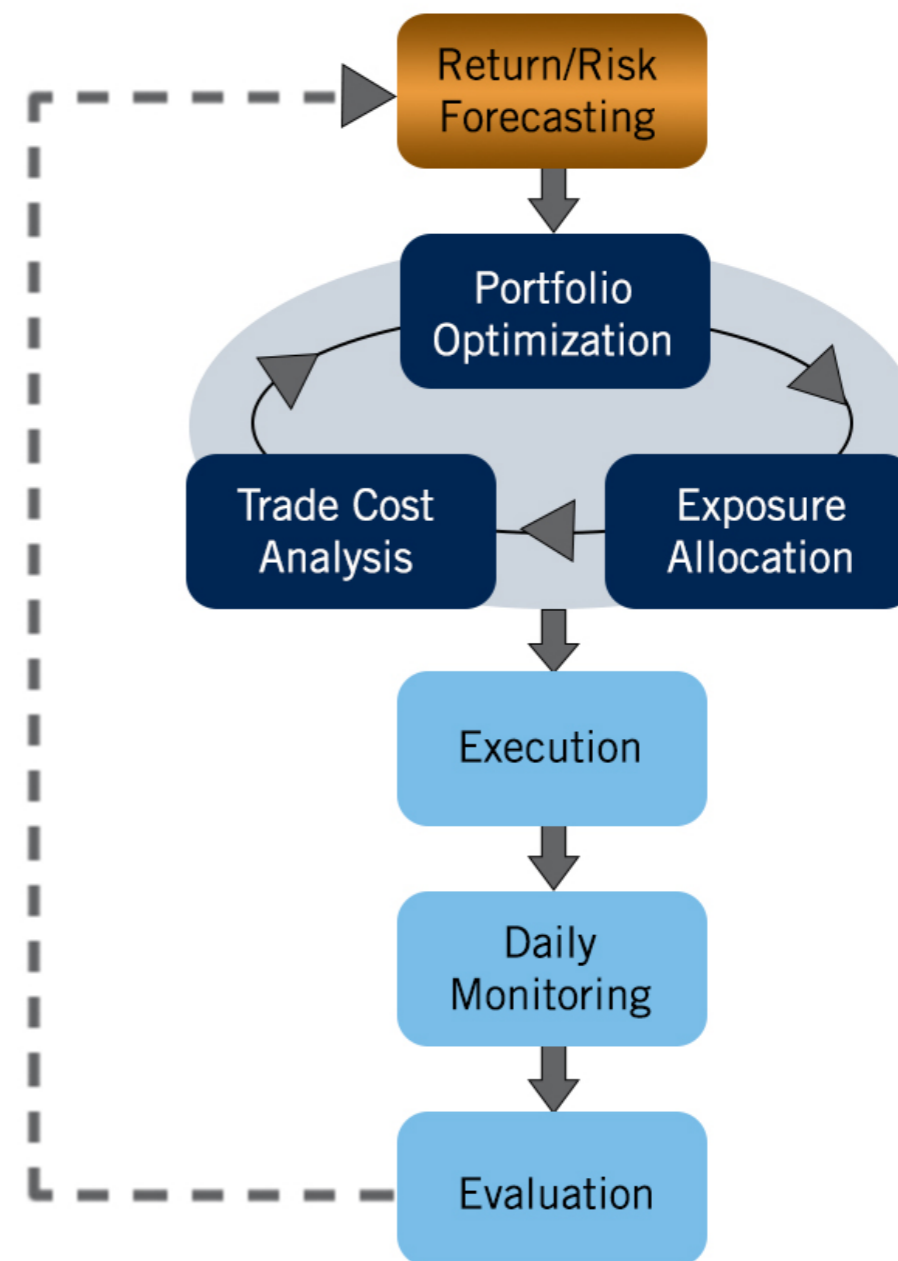
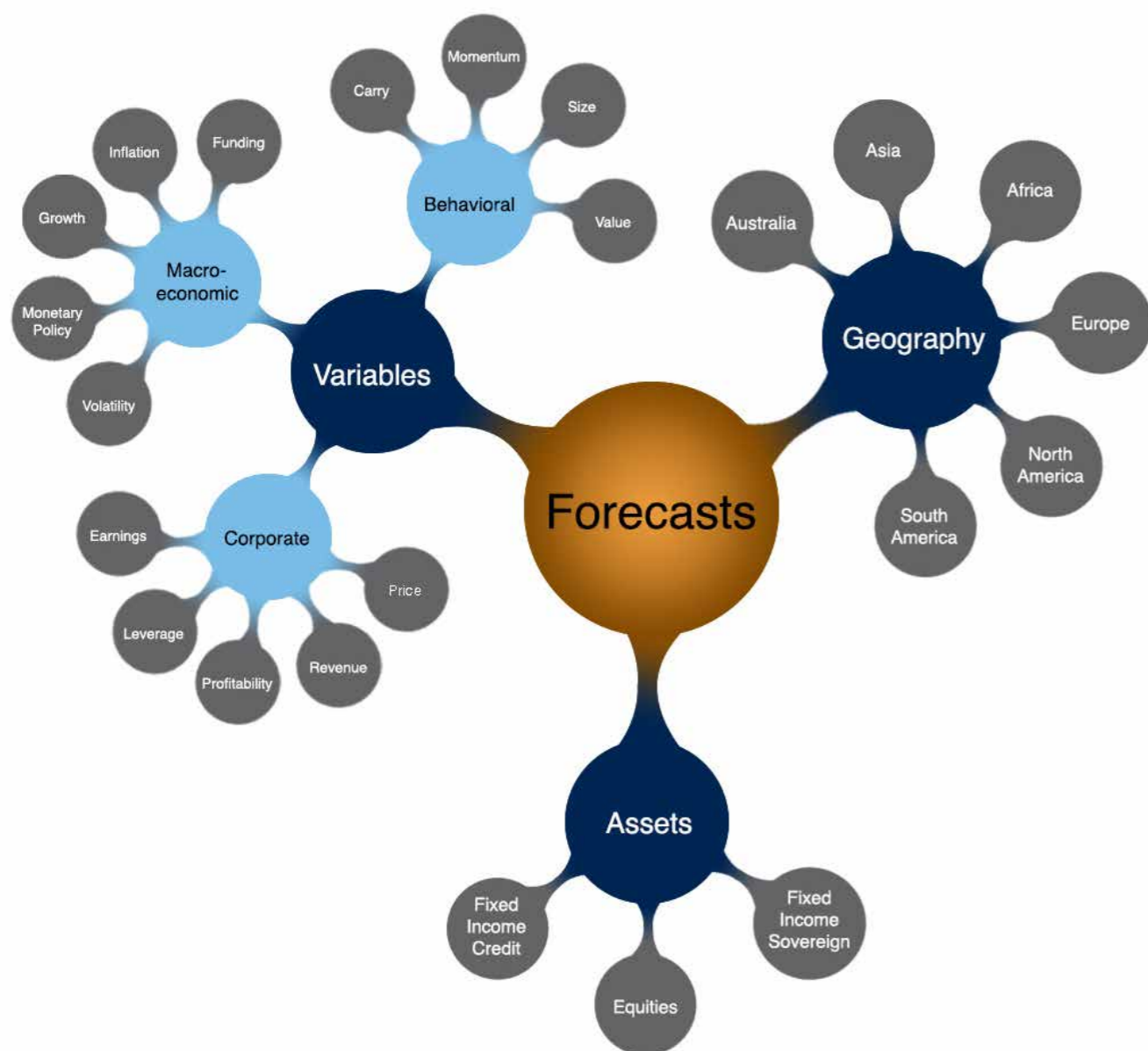
Chris Quigley // Research Analyst

- BA in Economics from the University of Southern California
- Seven years of industry experience with AFAM Capital



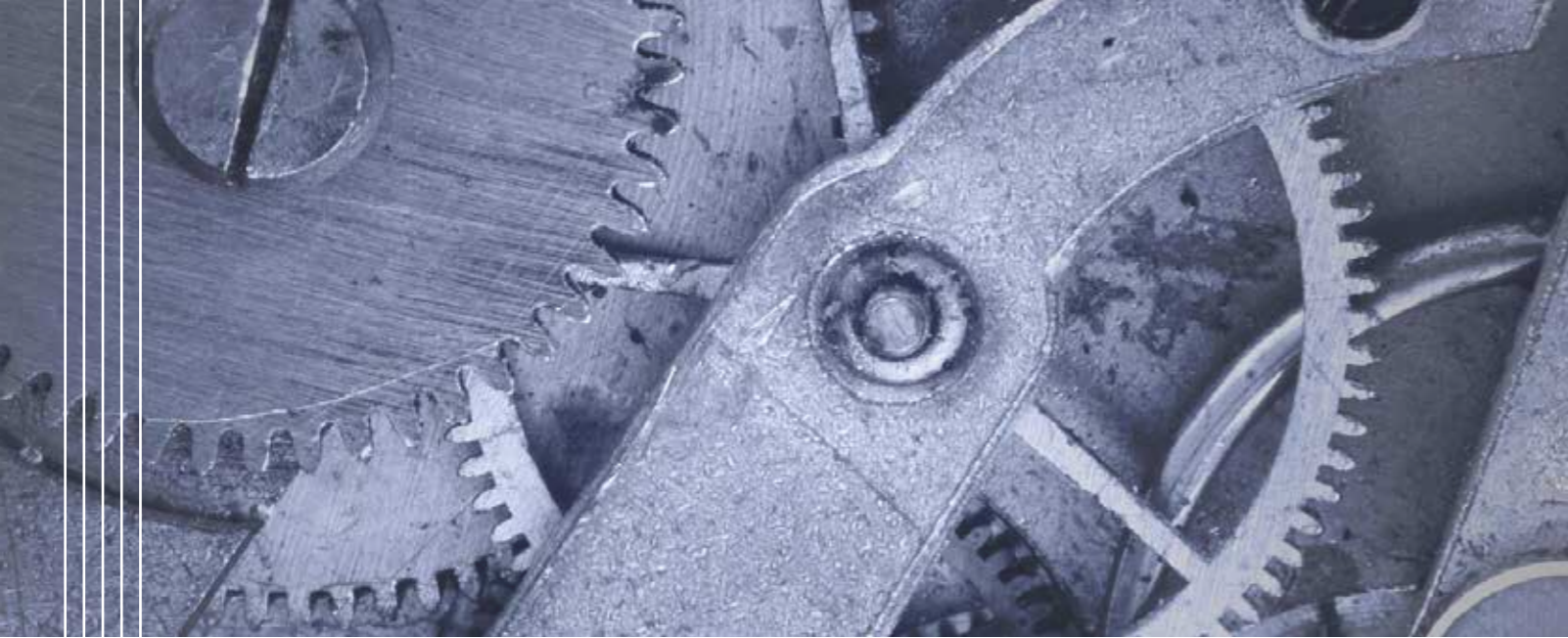
QUANTITATIVE FRAMEWORK

Innealta Capital utilizes a quantitative framework, robust enough to handle hundreds of different variables, yet flexible enough to adapt to changing market conditions. The framework parses through hundreds of macroeconomic, corporate, and behavioral variables to forecast asset returns and volatility. All variables are based on economic intuition and backed by rigorous academic evidence. To evolve with changing market conditions, the investment team constantly researches the effectiveness of new variables and new methods. Additionally, the team periodically reviews academic and practitioners' advancements and when necessary, updates its models. Thus, as the framework revises its forecasts, the Innealta Capital investment team adjusts the portfolio accordingly.



INNEALTA PROCESS

We optimize the portfolio to account for revised forecasts, portfolio constraints, the evolving ETF universe, and trading costs. The firm then executes through numerous broker/dealers so as to minimize transaction costs and dependency on any one relationship. On a daily basis, the firm monitors the framework's forecasts, the universe of global asset performance, and the portfolio's performance. As markets evolve, we evaluate our experiences and the performance of our framework to refine our process.



SECTOR ROTATION EQUITY ETF UNIVERSE

Sector	Annualized Return	Correlation to S&P 500
Consumer Discretionary	11%	0.92
Consumer Staples	12%	0.79
Energy	4%	0.73
Financials	-1%	0.88
Health Care	11%	0.80
Industrials	7%	0.94
Information Technology	10%	0.90
Materials	6%	0.89
Telecommunication Services	8%	0.58
Utilities	9%	0.51

SOURCE: Innealta Capital using data from Bloomberg
Total return data denominated in USD from 06.30.06 to 06.30.16. Annualized return and correlation calculated using S&P 500 sector indices for each respective sector.

WHY ACCESS TO SECTORS?

Investing directly in individual S&P 500 sectors creates an opportunity to capitalize on the significant return dispersion observed in S&P 500 sectors. Shown below are the ten S&P 500 sectors ranked each year based on performance for a given year. With complete hindsight the return potential of buying the top performers and avoiding the bottom performers is 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.



SOURCE: Innealta Capital using data from Bloomberg. Total return data denominated in USD from 12.31.05 to 12.31.15





IMPORTANT NOTES

Innealta Capital is a division of AFAM Capital. AFAM Capital is a Registered Investment Advisor, is editor of The Prudent Speculator newsletter 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 Sector Rotation Core Portfolio is a benchmark unaware strategy that considers investment among 10 U.S. sector equity markets, as defined by the S&P Global Industry Classification Standard, based on the prospective risk-relative reward scenario, versus fixed income, for each. If the equity market is favored based on its risk relative reward potential, it is included in the portfolio. When not invested in a particular sector equity market, funds are invested in a portfolio of fixed income and other asset classes for which the Investment Committee maintains a more favorable risk-reward outlook.

There is no assurance that investment objectives will be met. The ETFs that are included in the portfolio change over time. Investment management fees will vary, beginning at 1.5% per annum. Our full management fee schedule is described in more detail in Form ADV Part 2A.

PAST PERFORMANCE NOT INDICATIVE OF FUTURE RESULTS.

Any investment is subject to risk. 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 AFAM's Form ADV Part 2A.

The "Innealta Equity ETF Universe" and the "Why Access to Sectors" charts contain return data for the individual S&P 500 sector indices as defined by GICS. Additional informations can be found at us.spindices.com/index-family/us-equity/sector-industry/.

It is not possible to invest directly in an index.

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