Innealta Capital

SPECIALIST IN ACTIVE MANAGEMENT OF ETF PORTFOLIOS

Innealta Capital Tactical ETF Portfolios

- Strategies based on a quantitatively driven investment process
- Actively managed and designed to adjust to market conditions
- Provide exposure to domestic and international equities using ETFs

Tactical ETF Solutions

Offering a Range of Client-Focused Portfolios

Investing for All Types of Market Conditions

In volatile markets, investors look to the financial marketplace for solutions which aim to preserve capital while allowing for capital appreciation. The Sector Rotation and Country Rotation strategies are designed to seek positive relative risk-adjusted performance, versus respective benchmarks, in many types of market environments.

The Sector Rotation Portfolio provides exposure to domestic equity markets.

The Country Rotation Portfolio provides exposure to international equity markets.

In the Rotation Portfolios, cash is allocated to an actively managed fixed income basket when equity exposures fail to provide attractive risk-adjusted returns[1].

Why Choose Innealta Capital?

A Long History Providing Tactical ETF Portfolio Solutions. Innealta Capital has extensive experience managing portfolios of exchange-traded funds (ETF) and offers a diverse selection of risk-managed, global investment solutions implemented with ETFs.

Focused on Downside Risk Management. The Innealta Capital Tactical ETF Portfolios are actively managed and follow a flexible and adaptive investment approach focused on downside protection and long-term capital appreciation. Reduced portfolio volatility is a focus of the Innealta investment solutions.

At the Forefront of Financial Research. Innealta Capital has a team of experienced PhDs, CFA Charterholders, and Senior Academic Consultants continuously researching new ways of enhancing the way Innealta's portfolios are managed.

Vito Sciaraffia, Ph.D., Chief Investment Officer

- Previous experience includes senior quantitative roles at Dimensional Fund Advisors, Citigroup, and JPMorgan
- Former Assistant Professor of Finance at the Red McCombs School of Business at the University of Texas at Austin
- PhD in Business from the Walter A. Haas School of Business at the University of California at Berkeley
- MS in Business and MA in Mathematics from the University of California at Berkeley, MBA and MFin from the University of Chile, and BS in Economics from the Pontifical Catholic University of Chile

[1]Risk-Adjusted Return: a measure of how much risk is involved in producing an amount of return. Generally expressed as a number or rating.

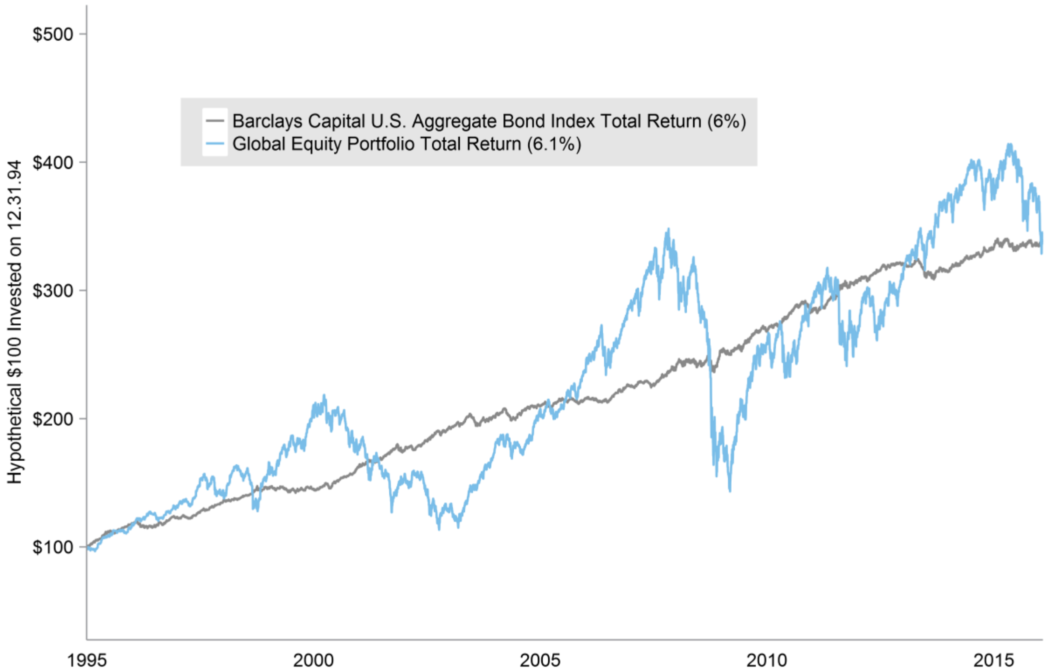
Adaptive, Multi-Asset-Class Portfolios

Employing a Disciplined Search for Tactical Opportunities

Advantageous Approach for All Market Conditions

Rates of return within and among all asset classes vary over time. The chart below illustrates this fact. These fluctuations present opportunities for tactical managers to take advantage of temporary price misalignments. Innealta's Tactical ETF Rotation Portfolios attempt to move a greater percentage of investment dollars to those asset classes the Investment Committee believes to have the highest risk-adjusted rate of return potential at that time.

TACTICAL OPPORTUNITY OVER TIME



	1 year	3 year	5 year	10 year	15 year	20 year	Inception
Barclays Capital U.S. Agg Bond Index	-0.16	2.14	3.51	4.66	4.95	5.37	5.97
Global Equity Portfolio	-9.12	2.06	3.16	3.27	4.23	5.41	6.06

Standardized trailing performance is as of December 31, 2015. The referenced indices are shown for general market comparisons and are not meant to represent portfolio performance. Global Equity Portfolio Total Return represented by a composite index consisting of 40% Russell 3000, 40% MSCI EAFE and 20% MSCI Emerging Markets indices. The Russell 3000 Index measure the performance of the largest 3,000 U.S. companies. The MSCI EAFE Index measures international equity performance and comprises 21 MSCI country indices, representing the developed markets outside of North America: Europe, Australasia and the Far East. The MSCI Emerging Markets Index represent emerging equity market performance and comprises 26 MSCI country indices. The Barclays Capital U.S. Aggregate Bond Index covers the U.S.-dollar-denominated, investment-grade, fixed-rate, taxable bond market. Indices are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Past performance is no guarantee of future results. SOURCE: Innealta Capital using data from Bloomberg

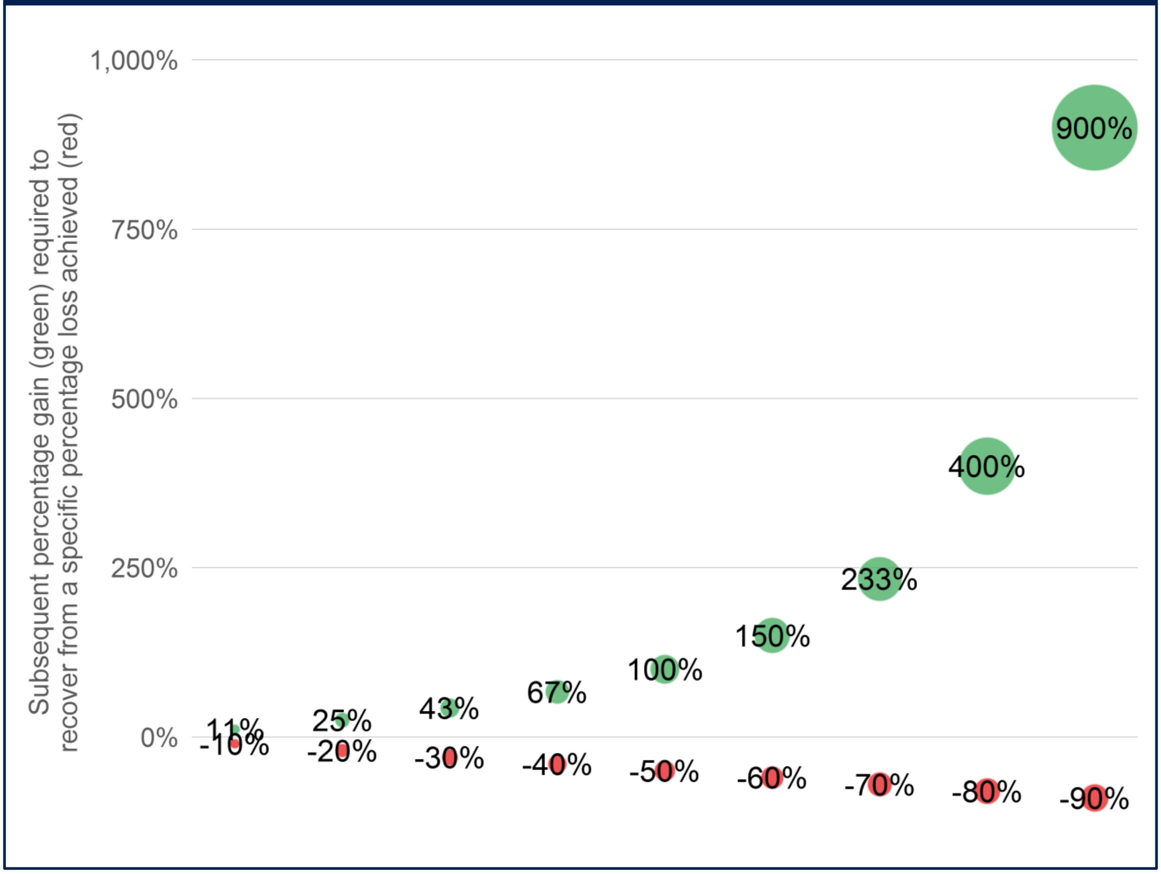
Percentage Gains Need to Exceed Prior Losses to Breakeven

Innealta Capital's investment process emphasizes risk control—which includes downside protection—while seeking benchmark-relative long-term outperformance throughout the entire business cycle.

Innealta's approach is built around the understanding that a dollar preserved during a market downturn is worth more than the value of a dollar made during a market upturn. That is, the percentage gains required to recover from a specific percentage loss always exceed that of the loss.

Simple math shows the cruel reality of recovering losses: half of $100 (a 50% reduction) is $50. To get back to $100, we must double the $50 (a 100% increase). The chart below demonstrates the math across a range of hypothetical returns:

THE CRUEL MATH OF RECOVERING LOSSES



Not Just a Hypothetical Exercise

The S&P 500 Index ***lost 57.7%*** of its value from an intraday high of 1576.09 on October 7, 2007 to its intraday low of 666.79 on March 6, 2009. It took a greater than ***136% gain***— more than 4 years—to get back to breakeven.

The S&P 500 Index is S&P's broad-based market index representing a sample of leading companies in leading industries. Unmanaged index returns do not reflect any fees, expenses or sales charges, past performance is no guarantee of future results, and one cannot directly invest in an index.

Innealta Capital Investment Approach

Quantitatively Driven Methodology Instills Discipline

Investment Philosophy

Financial markets are efficient at aggregating the expectations of all market participants. Academic research has shown that aggregate expectations can over- or underestimate fundamental growth based on behavioral and other biases. As long-term total return is a function of fundamental growth, those biases create tactical investment opportunities.

Rigorous Definition, Efficient Access and Execution

Our solutions are both risk-averse and opportunity seeking, depending on the prevailing market climate, and utilize the efficiency of exchange traded funds (ETFs) to provide exposure to a wide range of asset classes. ETFs offer several advantages including: transparency, liquidity, diversification, little to no tracking error and low expenses.

Quantitative Reviews Guide Decisions

The Innealta Tactical ETF Rotation Portfolios utilize a quantitative model that seeks to achieve superior risk-adjusted returns, regardless of the broader market environment.

Define Secular and Cyclical Views

- Establish base portfolio allocations
- Refine investment opportunity sets
- As-needed, minimally once per quarter

Modulate Analytical Emphases

- Review capital market environment for regime shifts
- Develop additive and alternative methodologies
- Ongoing basis

Manage Tactical Exposures

- Establish/Augment/Maintain/Reduce/Eliminate
- Accommodated through adjustments to non-equity exposures
- Daily review and decisions

Regulate Portfolio-Level Risk

- Ascertain evolving capital market dynamics
- Define and execute necessary portfolio adjustment
- Daily review and decisions

Innealta Capital Rotation Strategy

Risk-Conscious Domestic and International Exposure

Rotation Strategy Definition

The Innealta Rotation Strategies tactically alter exposures among individual equity markets. Investment decisions are driven predominantly by the quantitative review of a range of economic metrics found to be informative in regard to forward-looking potential risk-adjusted returns for individual domestic sector or country equity markets. These metrics, which the Investment Committee reviews both on times-series and cross-sectional bases, include fundamental valuation, momentum, risk and technical characteristics of the equity markets within the investment opportunity sets.

When the Investment Committee's review of the quantitative framework suggests that a particular sector or country's potential risk-adjusted returns appear attractive in comparison to a globally diversified basket of fixed income, an ETF representing the sector or country is purchased. Conversely, when the model indicates that a sector or country's expected risk-adjusted return appears less favorable than a non-equity allocation, the collateral is assigned in proportional weights to the portfolio's fixed income exposures. Innealta approaches equity exposures with a variable initial weight and dynamic allocation range in mind.

As an example, if sector X's expected risk-adjusted returns are deemed attractive relative to that of the actively managed fixed income basket, then the Sector Rotation Portfolio invests in sector X at an initial allocation between approximately 1% and 10%, with an estimated 10% target weight. On the other hand, if sector X is identified as unattractive, sector X's potential investment collateral is allocated to the actively managed basket of fixed income.

The Innealta Capital Tactical ETF models seek a defensive approach in bearish markets and become more aggressive in bullish markets

When the model deems equity markets unattractive, dollars are reallocated to an actively managed basket of global fixed income ETFs

Innealta Capital Rotation Strategy

Tactical Exposure to a Range of Equity Markets

Sector Rotation Equity Opportunity Set

Consumer Discretionary	Consumer Staples	Energy	Financials	Health Care
Industrials	Information Technology	Materials	Telecom Services	Utilities

Country Rotation Equity Opportunity Set

Developed Markets

Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany
Hong Kong	Ireland	Israel	Italy	Japan	Netherlands	New Zealand	Norway
	Portugal	Singapore	Spain	Sweden	Switzerland	United Kingdom	

Emerging Markets

Brazil	Chile	China	Colombia	Egypt	Greece	India	Indonesia
Malaysia	Mexico	Morocco	Peru	Philippines	Poland	Qatar	Russia
	South Africa	South Korea	Taiwan	Thailand	Turkey	UAE	

Each of these asset classes has its own set of investment characteristics and risks and investors should consider these risks carefully prior to making any investments. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise and bonds are subject to availability and change in price. *The Innealta Tactical ETF Country and Core Sector Rotation strategies are based on a quantitatively driven, tactical asset allocation approach that apportions portfolio assets to countries in the Country Rotation portfolio and sectors in the Core Sector Rotation portfolio based on the specific risk/reward characteristics of each. Dollars not allocated to equities are invested in an actively managed portfolio of fixed-income exchange traded funds (ETFs).* Alternative investments may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses. **There is no guarantee that any investment strategy will achieve its objectives, generate profits or avoid losses.**

Global All Asset Portfolios

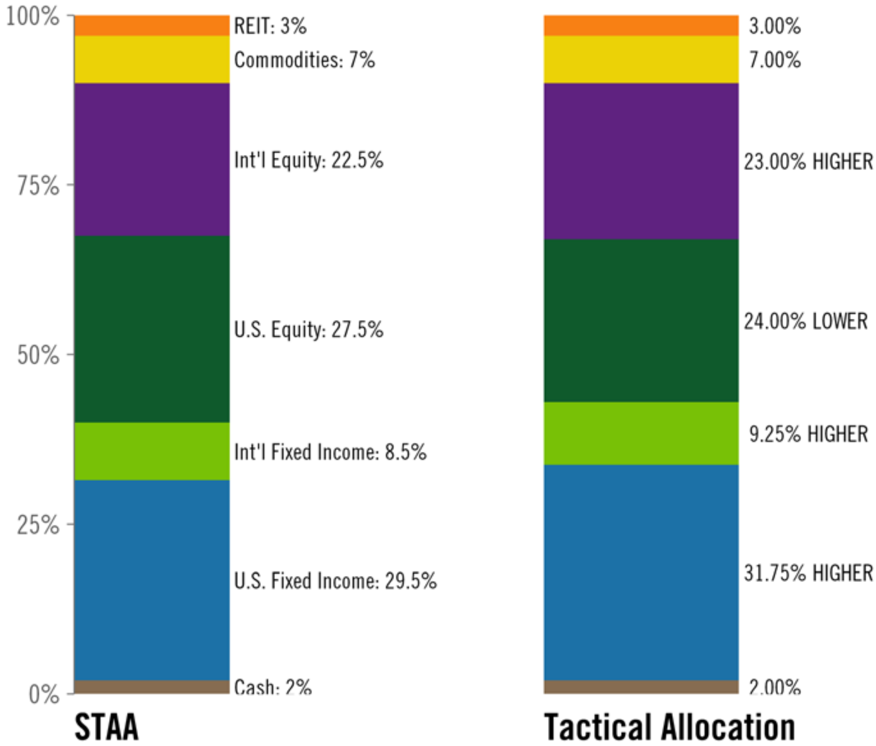
Global Strategies for Diverse Risk Tolerances

Global All Asset Strategy Definition

The Global All Asset (GAA) Portfolios employ a quantitative framework based on economic, fundamental, risk and technical analyses that evaluate the risk/reward potential of investing in various asset classes relative to fixed income. The series includes three portfolios defined by their relative risk tolerances: Conservative, Moderate and Growth.

In the first stage of the investment process, which involves a proprietary blend of classical asset allocation methodologies, the Investment Team develops a long-term secular tactical asset allocation (STAA). The team then applies a tactical overlay to the STAA target weights using our quantitative framework to adjust asset class exposure within each portfolio to a range of +/- 20% relative to the STAA target in order to attempt to capture enhanced risk-adjusted returns. During bearish market environments, equity and other asset class exposures may be reduced, with the resulting capital proportionately distributed to the fixed income portion of the portfolio. Conversely, during bullish market environments, equity and other asset class exposures may be increased, with the allocations to fixed income proportionately reduced.

Example STAA-TAA Comparison (Moderate-Risk Portfolio)



Tactical allocation may involve more frequent buying and selling of assets and will tend to generate higher transaction cost. Investors should consider the tax consequences of moving positions more frequently. Secular Tactical Asset Allocations are used as our target allocations within the Tactical Asset Allocation framework; they are the baseline from which we tactically over- or underweight specific asset classes. The secular tactical asset allocation process projects a three- to five-year time period. While the strength of the asset allocation decisions is retested often, we do not anticipate making adjustments until midway through the strategic time frame, which generally is about every two to three years. If significant market fluctuations warrant a change, adjustments may be made sooner. Tactical portfolios are designed to be monitored over a shorter time frame to potentially take advantage of opportunities as short as a few months, weeks, or even days. For these portfolios, more timely changes may allow investors to benefit from rapidly changing opportunities within the market. Asset allocation does not ensure a profit or protect against a loss. Each of these asset classes has its own set of investment characteristics and risks and investors should consider these risks carefully prior to making any investments.

There is no guarantee that any investment strategy will achieve its objectives, generate profits or avoid losses.

INNEALTA CAPITAL HIGHLIGHTS

Firm

- Extensive experience managing multi-asset-class portfolios
- Independent and privately owned
- Institutional heritage

Approach

- Flexible, adaptive
- Focused on risk and downside protection
- Seeks to reduced portfolio volatility

Solutions

- Transparent, turn-key, cost effective, liquid and alternative strategies
- Diverse portfolio options (targeted and whole-portfolio)
- International exposure in equity and fixed income (granular access to particular regions and countries)

IMPORTANT NOTES

The material provided herein has been provided by AFAM Capital, Innealta Capital is a division of AFAM Capital, and is for informational purposes only. AFAM Capital serves as investment adviser to one or more mutual funds distributed through Northern Lights Distributors, LLC member FINRA. Northern Lights Distributors, LLC and AFAM Capital are not affiliated entities.

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 no-load proprietary mutual funds and individually managed client accounts. The Innealta Tactical ETF Country and Core Sector Rotation strategies are based on a quantitatively driven, tactical asset allocation approach that apportions portfolio assets to 20 countries in the Country Rotation portfolio and 10 sectors in the Core Sector Rotation portfolio based on the specific risk/reward characteristics of each. Dollars not allocated to equities are invested in an actively managed portfolio of fixed-income exchange traded funds (ETFs). The Innealta Global All Asset strategies are based on a quantitatively driven, tactical asset allocation approach that apportions portfolio assets to individual equity classes based on the specific risk/reward characteristics of each. Dollars not allocated to equities are invested in a basket of primarily fixed income ETFs. Effective Dec. 31, 2014, the Risk Based Core composites were renamed Global All Asset Conservative, Global All Asset Moderate and Global All Asset Growth. Formerly, the composites were labeled Risk Based Core ETF-Conservative, Risk Based Core ETF – Moderate, and Risk Based Core ETF – Growth.

Together, the strategies seek to outperform their benchmarks on a risk-adjusted basis through global diversification, active management, style integrity, minimized security selection risk and cost efficiency. There is no assurance that these objectives will be met. A cash balance of at least approximately 0.50% of assets is assumed to pay for the quarterly advisory fee and other expenses. The ETFs that are included in the models change over time. Although no representation of performance is being made in this presentation, we point out that there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved by any particular trading program. Another inherent limitation on these results is that the allocation decisions reflected in the performance record were not made under actual market conditions and, therefore, cannot completely account for the impact of financial risk in actual trading. Moreover, changes in the assumptions that were used to calculate the returns may have a material impact on the returns presented. No representations and warranties are made as to the reasonableness of the assumptions.

PAST PERFORMANCE— AND ESPECIALLY HYPOTHETICAL PERFORMANCE – IS 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 Capital's Form ADV Part 2A.**

An investment in Exchange Traded Funds (ETFs), structured as a mutual fund or unit investment trust, involves the risk of losing money and should considered as part of an overall program, not a complete investment program. An investment in ETFs involves additional risks: not diversified, the risks of price volatility, competitive industry pressure, international political and economic developments, possible trading halts, Index tracking error.

Securities and Advisory services offered through LPL Financial, a Registered Investment Advisor. Member FINRA/SIPC.

Innealta Capital is not affiliated with LPL Financial. There is no guarantee that any investment strategy will achieve its objectives, generate profits or avoid losses.