

# Tactical ETF Portfolio Series

---

*For use with financial advisors and clients in consultation with their financial advisors. Innealta Capital is a division AFAM Capital.*

*There is no assurance that the techniques and strategies discussed are suitable for all investors or will yield positive outcomes. The purchase of certain securities may be required to effect some of the strategies. Investing involves risks including possible loss of principle.*



# Table of Contents

---

- I. Introduction to Innealta Capital
- II. Philosophy & Process
- III. Products

**Introduction to Innealta  
Capital**

# Why 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.



# Innealta Investment Management



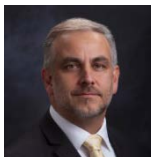
## **Vito Sciaraffia, Ph.D., Chief Investment Officer**

- Previous experience includes Dimensional Fund Advisors, Citigroup, and JP Morgan
- Former Assistant Professor of Finance at the University of Texas at Austin
- PhD, MS in business and MA in Mathematics from the University of California, Berkeley
- MBA and MFin from the University of Chile and BS in Economics from the Pontifical Catholic University of Chile



## **Mark Mowrey, CFA®, SVP, Senior Portfolio Manager**

- Over 15 years of experience quantitatively evaluating public equity markets using fundamental methods
- Former public equity research analyst, private equity financier, consultant, and entrepreneur
- BS in Economics from The Wharton School of the University of Pennsylvania



## **Jason Clark, CFA®, SP, Senior Portfolio Manager**

- 15 years in the industry with equity research and portfolio management using fundamental methods
- Former fixed income trader and sell-side equity research analyst
- United States Navy veteran with a BS in Finance from the University of West Florida

## **Ray Chen, Quantitative Research Analyst**

- MS in Statistics from Rice University

## **Aaron Steinman, Data Analyst**

- Bachelors degree in Economics and Master in Finance from The University of Texas at Austin

## **Chris Quigley, Senior Research Analyst**

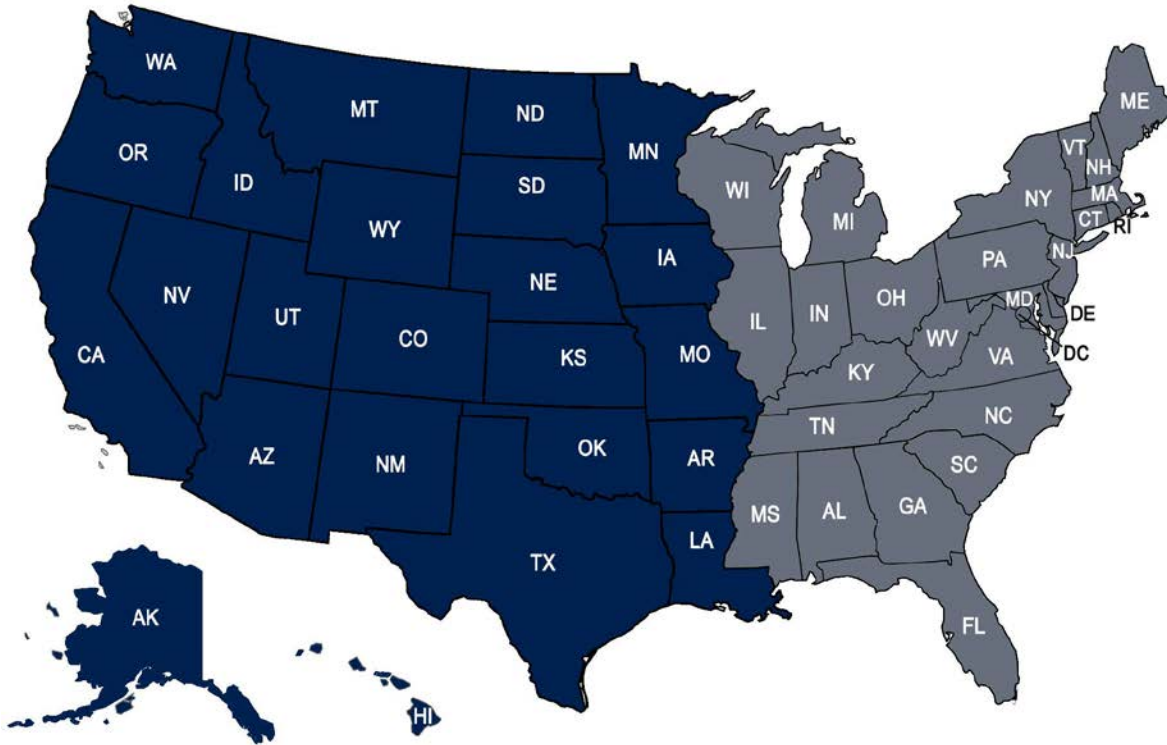
- BA in Economics from The University of Southern California

## **Gerald Buetow, Ph.D., CFA®, Senior Advisor**



# Innealta Distribution Group

---



## National Sales & Key Accounts

**Dion Travagliante**  
VP, National Sales Director  
512.600.1819  
dion@innealtacapital.com

**Talia Harmacek**  
Marketing Director  
512.600.1807  
tharmacek@innealtacapital.com

## General Sales and Support Questions

855.994.2326  
sales@innealtacapital.com

## Regional Sales

### West

**Joe Niehaus**  
Sales Consultant  
512.600.1803  
jniehaus@innealtacapital.com

### East

**John Fitzgibbons**  
Sales Consultant  
512.600.1806  
jfitzgibbons@innealtacapital.com



# Philosophy & Process

# Innealta Capital 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.



# Innealta Approach

---

- Our solutions are both risk-averse and opportunity seeking, utilizing the efficiency of ETFs to provide exposure to a wide range of asset classes
- The strategies employ a quantitatively founded approach to modulate portfolio exposures among fixed income, equity and other asset classes based upon expectations for prospective risk-adjusted return
- The investment objective of all strategies is to provide excess returns relative to the established benchmark over periods of three years and longer, with risk levels commensurate to the level of performance

# Innealta Tactical Asset Allocation Framework

---

The quantitative, econometric framework informs Innealta's portfolio management decisions and is designed to uncover investment opportunities across asset classes.

## Define Secular and Cyclical Views

- Establish base portfolio allocations
- Refine investment opportunity sets
- Periodicity: as-needed, at least once per quarter

## Modulate Analytical Emphases

- Review capital market environment for regime shifts
- Develop additive and alternative methodologies
- Periodicity: ongoing basis

## Manage Tactical Exposures

- Establish/Augment/Maintain/Reduce/Eliminate
- Accommodated through adjustments to non-equity exposures
- Periodicity: daily

## Regulate Portfolio-Level Risk

- Ascertain evolving capital market dynamics
- Define and execute necessary portfolio adjustment
- Periodicity: daily

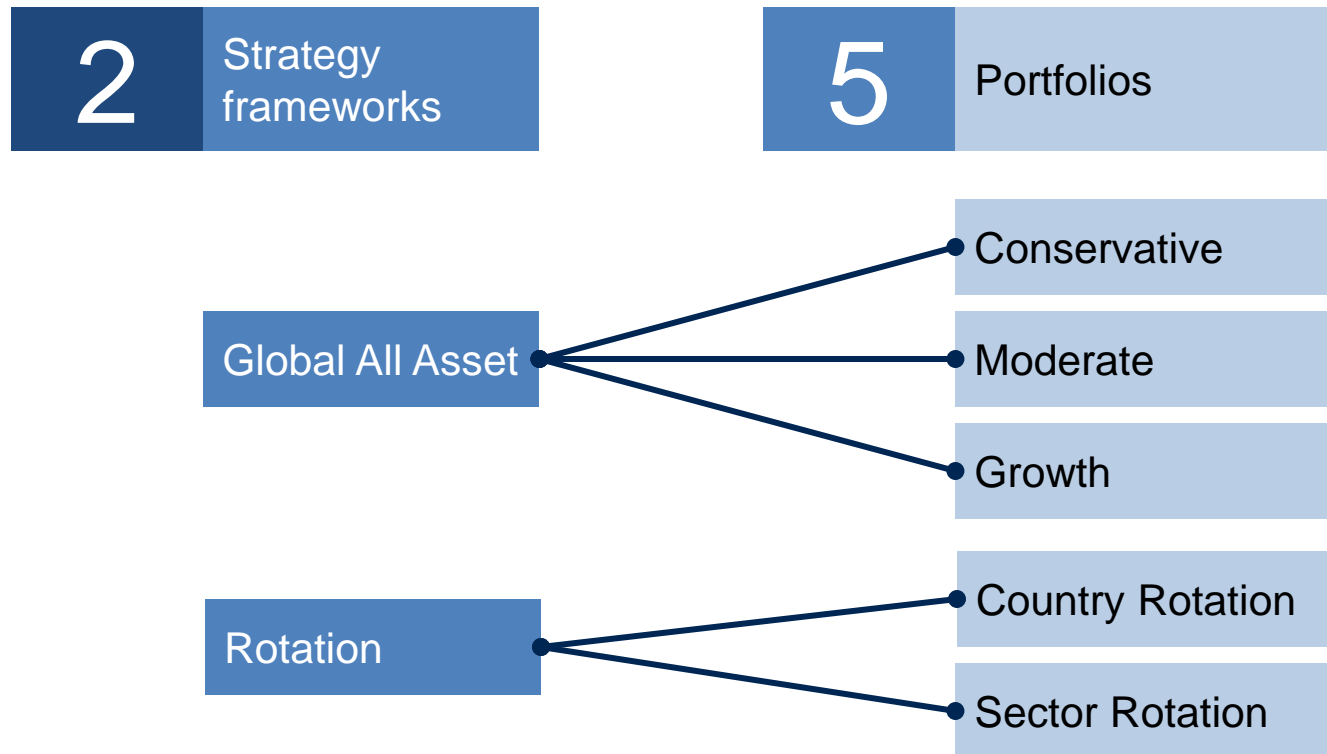
---

## Products

# The Innealta Tactical ETF Strategies

---

Innealta's risk-managed investment solutions combine powerful quantitative methodologies with the utility of ETFs.



# Global All Asset Portfolios

# Global All Asset Strategy

---

Multi-asset class portfolio, including alternative exposures, based on a ***two-stage tactical decision process***:

Step 1

Strategic  
Targets

Determine targets for individual slices within the broader equity, fixed income and other asset classes

Step 2

Tactical  
Decisions

Shorter-term, tactical decision to over- or underweight individual equity markets

# Global All Asset Strategy

---

Multi-asset class portfolio, including alternative exposures, based on a ***two-stage tactical decision process***:

## Step 1

### Strategic Targets

Determine targets for individual slices within the broader equity, fixed income and other asset classes

■ Equity, Real Estate and Other

■ Fixed Income

40 60

Conservative

60 40

Moderate

80 20

Growth

“Go anywhere” within equity, fixed income and other asset classes

# Global All Asset Core Portfolios

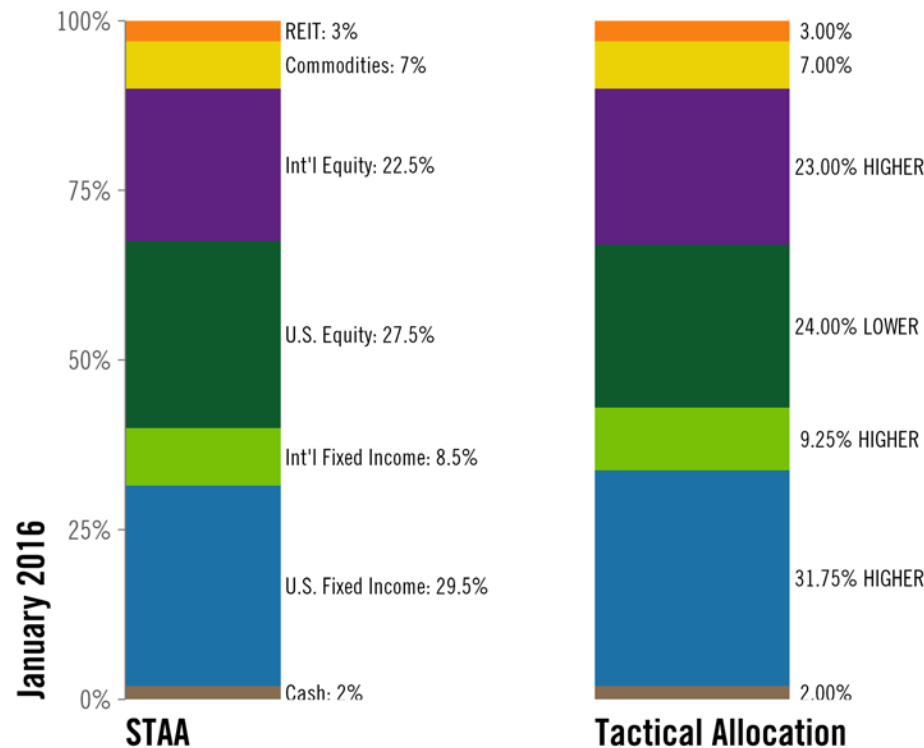
## Tactical Decisions

### Step 2

#### Tactical Decisions

Shorter-term, tactical decision to over- or underweight individual equity markets

- Tactical decisions are made on an individual equity market basis
- The Investment Committee will either overweight or underweight each equity market within a range of +/- 20%, versus the strategic allocation





# Global All Asset Portfolios: Usage

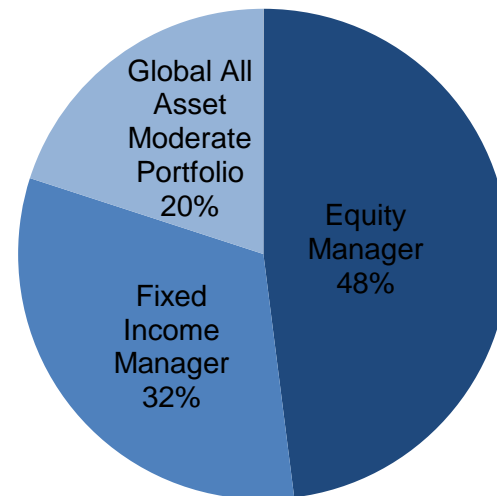
---

- Can be a complete investment solution for long-term horizons, or
- A portfolio complement that modulates overall strategic exposures between equity and fixed income

...as complete  
investment solution



...as portfolio  
complement



# Global All Asset Core Portfolio Construction

## Investable Exposure Universe

---

### Equity Exposures

U.S.  
Large Cap

U.S.  
Mid Cap

U.S.  
Small Cap

Developed  
Markets

Emerging /  
Frontier  
Markets

REITs

### Fixed Income Exposures (Domestic / Global / International)

Aggregate

Treasury

Agency

Mortgage

TIPS

Corporate  
(Investment grade  
and high yield)

### Alternative/Other Exposures

Commodities  
Aggregate

Oil

Precious  
Metals

Industrial  
Metals

# Rotation Portfolios

# Rotation Strategy

---

- Informed by Innealta's proprietary quantitative framework, the Investment Committee determines the risk/return tradeoff of each non-fixed income exposure relative to a globally diversified basket of fixed income securities
  - Discrete decision process between non-fixed income exposures and fixed income
  - All exposures are effectively borrowed (lent) from (to) the portfolios' fixed income allocations in a proportional manner, thus retaining our investment characteristics within the fixed income portion at all times
  - Conservative strategies by design

# Rotation Portfolios

---

- Core (2 Portfolios)
  - Country Rotation
    - Over 40 country equity markets are now considered for investment
  - Sector Rotation
    - 10 U.S. sectors considered for investment
- Flexible allocation to individual equity market exposures
- The strategy can deploy alternative exposures as the Investment Committee identifies opportunities across the ETF universe

# Country Rotation Portfolio Construction

## Investable Exposure Universe

### Developed Market Exposures

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	

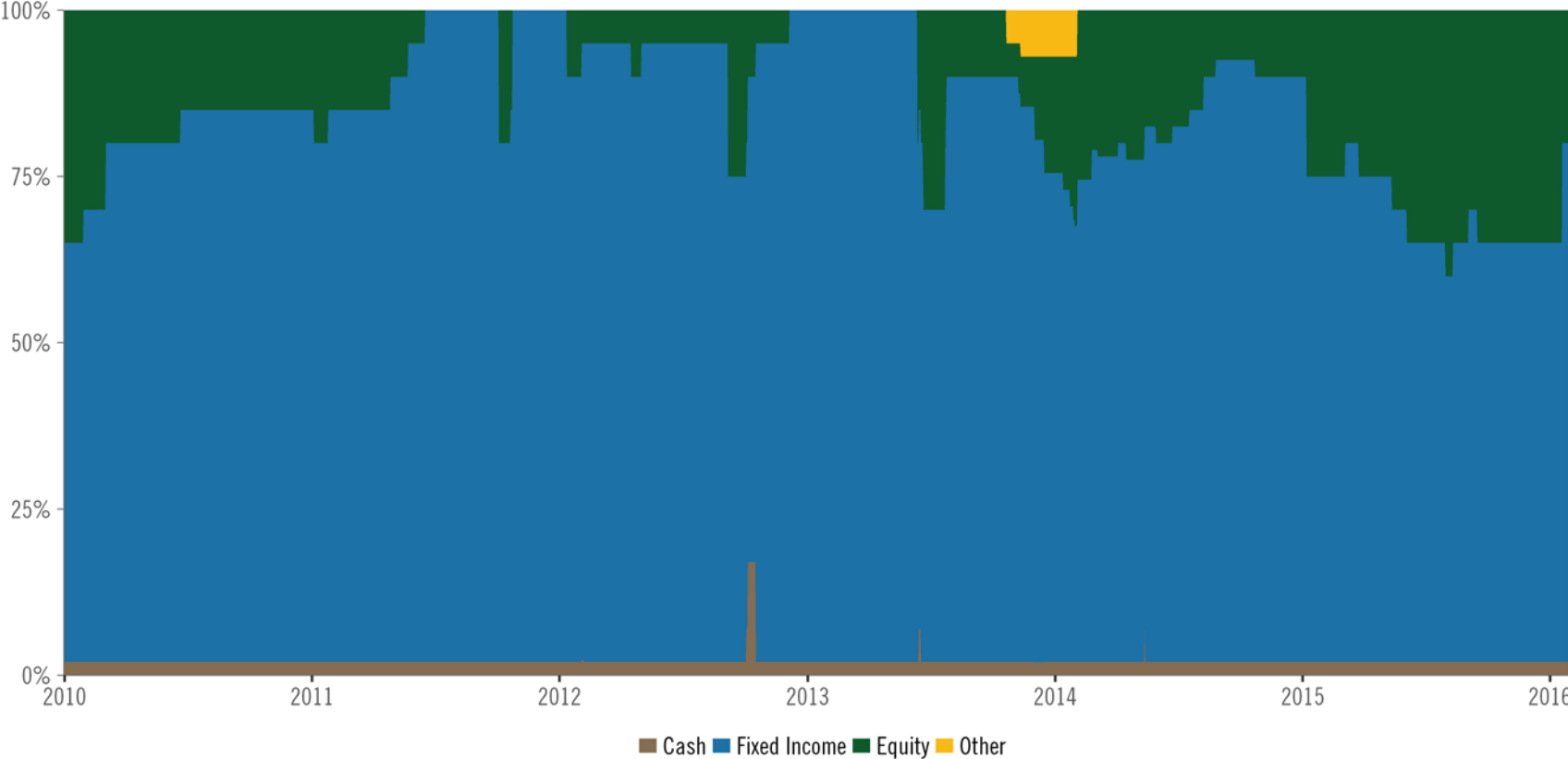
### Emerging Market Exposures

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

### Fixed Income Exposures (Domestic / Global / International)

Aggregate	Treasury	Agency	Mortgage	TIPS	Corporate (Investment grade and high yield)
-----------	----------	--------	----------	------	---------------------------------------------------

# Country Rotation Portfolio Exposures



From 12.31.09 to 01.31.16. Data on this page are derived from composites of portfolios managed directly by Innealta Capital. Holdings and performance data of those portfolios managed and/or otherwise traded by partners of Innealta Capital may differ greatly from these data. SOURCE: Innealta Capital

# Sector Rotation Core Portfolio Construction

## Investable Exposure Universe

---

### Sector Exposures

Consumer  
Discretionary

Consumer Staples

Energy

Financials

Health Care

Industrials

Information  
Technology

Materials

Telecom Services

Utilities

### Fixed Income Exposures (Domestic / Global / International)

Aggregate

Treasury

Agency

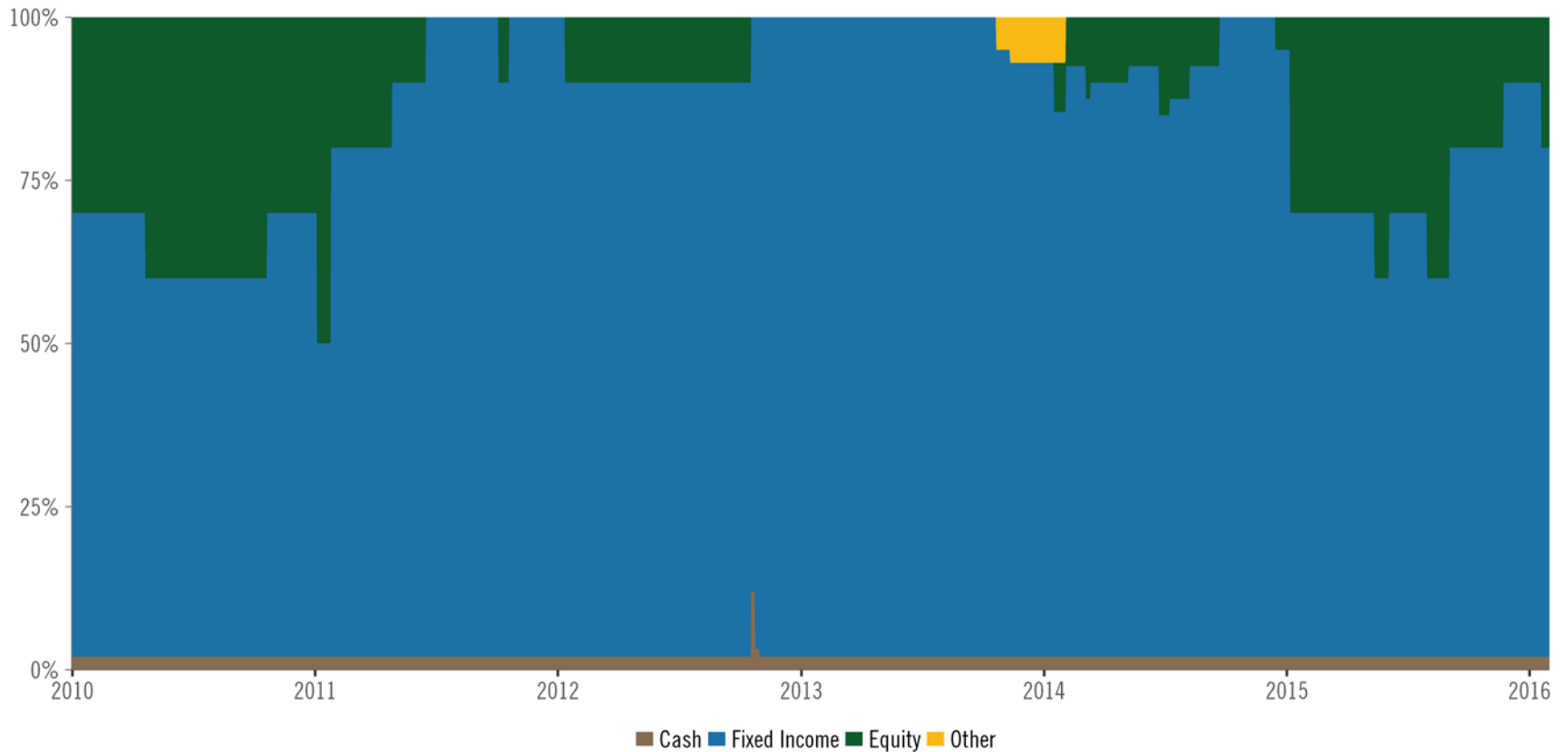
Mortgage

TIPS

Corporate  
(Investment grade  
and high yield)



# Sector Rotation Portfolio Exposures



From 12.31.09 to 01.31.16. Data on this page are derived from composites of portfolios managed directly by Innealta Capital. Holdings and performance data of those portfolios managed and/or otherwise traded by partners of Innealta Capital may differ greatly from these data. SOURCE: Innealta Capital

# Disclosures

---

The Innealta Tactical ETF Risk-Based strategies are based on a quantitatively driven, tactical asset allocation approach that apportions portfolio assets to five 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 exchange traded funds (ETFs). 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.

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 more than 30 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). 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.

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.

Effective March 31, 2013, the Country Rotation and Sector Benchmarks were redefined to the Barclays Capital U.S. Aggregate as the index better represents the neutral-state risk-return characteristics of the portfolios and is a more appropriate reference for all potential active investment decisions, the breadth of which has expanded along with the ETF universe. Prior to that, the benchmarks consisted of 60% MSCI ACWI ex USA NR and 40% Barclays Capital US Aggregate Bond TR, and 60% S&P 500 TR and 40% Barclays Capital US Aggregate Bond TR, respectively. The Barclays Capital Aggregate Bond Index covers the U.S. dollar-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The MSCI All Country World Index Ex-U.S. is a market-capitalization-weighted index designed to provide a broad measure of stock performance throughout the world, with the exception of U.S.-based companies. It includes both developed and emerging markets. The S&P 500 Index is S&P's broad-based market index representing a sample of leading companies in leading industries. A person cannot invest directly in an index. The benchmarks are calculated daily and rebalanced quarterly.

# Disclosures

---

The S&P 500 Global Industry Classification Standard (GICS) sectors is a classification systems developed by S&P Indices and MSCI Barra in 1999 in response to the global financial community's need for one complete, consistent set of global sector and industry definitions,. GICS enables market participants to identify and analyze companies from a common global perspective by breaking down the market into four levels of granularity: 10 sectors, 24 industry groups, 68 industries, and 154 sub-industries. Companies are classified primarily based on revenues, though earnings and market perception are also considered in classification analysis. The Russell 3000 Index measure the performance of the largest 3,000 U.S. companies. The MSCI EAFE Index measures international equity performance and is comprised of 21 MSCI country indices, representing the developed markets outside of North America: Europe, Australasia and the Far East.

Principle risk: An investment in Exchange Traded Funds (ETFs), structures as a mutual fund or unit investment trust, involves the risk of losing money and should be 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.

Stock investing may involve risk including loss of principle.

Treasury inflation-protected securities (TIPS) help eliminate inflation risk to your portfolio as the principle is adjusted semiannually for inflation based on the Consumer Price Index – while providing a real rate of return guaranteed by the U.S. Government.

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.

Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate and credit risk as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity and redemption features.

High yield/junk bonds (grade BB or below) are not investment grade securities, and are subject to higher interest rate, credit and liquidity risks than those graded BBB or above. They generally should be part of a diversified portfolio for sophisticated investors.

International and emerging market investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors.

Alternative strategies 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.

# Disclosures

---

Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

Small Cap stocks may be subject to a higher degree of risk than more established companies' securities. The illiquidity of the Small Cap market may adversely affect the value of these investments.

Mid-capitalization companies are subject to higher volatility than those of larger capitalized companies.

Asset allocation does not ensure a profit or protect against a loss.

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

Innealta Capital is not affiliated with LPL Financial.

Not FDIC/NCUA Insured | Not Bank/Credit Union Guaranteed | May Lose Value | Not Guaranteed by any Government Agency | Not a Bank/Credit Union Deposit.

AFAM Capital is a Registered Investment Advisor. Innealta Capital is a division of AFAM Capital. AFAM Capital is editor of The Prudent Speculator newsletter and is the Investment Advisor to four no-load proprietary mutual funds and individually managed client accounts. Registration of an investment adviser does not imply any certain level of skill or training.

12117 FM 2244, Bldg. 3-#170 | Austin, Texas 78738 | p: 512.354.7041 | f: 512.402.1014 | [afamcapital.com](http://afamcapital.com)