WEEKLY MARKET REVIEW

MAY 9, 2017

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CLS INVESTMENTS

Market Performance

Equities	LAST WEEK	QTD	YTD '17
Total U.S. Market[1]	+0.55%	+1.62%	+7.45%
Domestic Large-Cap Equity[2]	+0.66%	+1.69%	+7.86%
Domestic Small-Cap Equity[3]	-0.22%	+0.87%	+3.36%
International Equity[4]	+1.30%	+3.47%	+11.60%
Developed International Equity[5]	+1.82%	+4.41%	+11.98%
Emerging Market Equity[6]	+0.08%	+2.27%	+13.97%
Fixed Income	**LAST WEEK**	**QTD**	**YTD '17**
U.S. Investment Grade Bonds[7]	-0.23%	+0.54%	+1.36%
Cash Equivalent[8]	+0.01%	+0.07%	+0.17%
Commodities	**LAST WEEK**	**QTD**	**YTD '17**
Commodity[9]	-1.57%	-3.05%	-5.31%

[1]Russell 3000 [2]S&P 500 Index [3]Russell 2000 Index [4]MSCI ACWI ex-U.S. Index [5]MSCI EAFE Index [6]MSCI Emerging Markets Index [7]Bloomberg Barclays Capital U.S. Aggregate Bond Index [8]Bloomberg Barclays Capital 1-3 Month U.S. Treasury Bill Index [9]Bloomberg Commodity

As of 5/5/2017

Week in Review

Global equities finished the week stronger again with both U.S. and international markets marginally higher. U.S. stocks, as defined by the Russell 3000 Index, rose 0.6% with large-caps outperforming small-caps. International developed stocks had a solid performance finishing up by more than 1.8%, while emerging market equities were flat, up only 0.1%. Global, high-quality companies were the best performing smart beta strategy, advancing 1.20%, while global, small-cap stocks were up only 0.3%. Bonds moved slightly lower, as the 10-year U.S. Treasury yield moved higher by three basis points to yield 2.36%.

What Recent Monetary and Fiscal Policy Means for Your Portfolio

Last week saw a flurry of activity on both the monetary and fiscal policy fronts here in the U.S. The Federal Reserve (Fed) met and confirmed much of what the markets already knew regarding expectations for higher interest rates later on this year (as early as June in fact). At the same time, the Trump administration scored a victory on healthcare as the U.S. House of Representatives edged out a nail biter in passing its revised version of the American Health Care Act. By last Friday, we even got a reasonable surprise on jobs, with the U.S. economy adding another 211,000 jobs for the month of March, confirming the labor market is still going strong.

So, what does the most recent read on interest rates, fiscal policy, and the jobs market mean for your portfolio? There are a couple points investors should keep in mind. Improving economic activity will likely mean inexpensive stocks, and smaller companies can benefit from stronger economic growth. Value and small-cap stocks have both lagged the broader markets, but are poised to be the biggest beneficiaries as the U.S. economy continues to hum along.

Also, assuming fiscal policy can continue to move forward in a more orderly fashion in Washington, an overhaul in tax policy and additional spending on infrastructure will likely help further accelerate profit growth for U.S. companies, translating to another opportunity for stocks to march even higher.

Much remains to be seen, but assuming things continue on track, investors may see another stellar year for global equity markets.

Joe Smith, CFA

Senior Market Strategist

In 2015, Joe Smith, CFA, joined CLS in the role of Senior Market Strategist. Prior to joining CLS, Mr. Smith worked at Russell Investments, where he served as an Analyst responsible for asset allocation research, portfolio construction, optimization design, and risk management research. He later joined Russell ETFs as Manager of ETF Product Development and Research, a role in which he developed quantitative indexing strategies implemented as ETFs. Mr. Smith also worked for Charles Schwab Investment Management as Senior Product Specialist supporting product management activities for the Schwab ETFs fund family. In addition, he worked for CLS during the summer of 2014 as an Investment Analyst.

Mr. Smith received his Bachelor of Science in Economics from the University of Washington. He later received his Master of Business Administration (MBA) degree from the Tepper School of Business at Carnegie Mellon University.

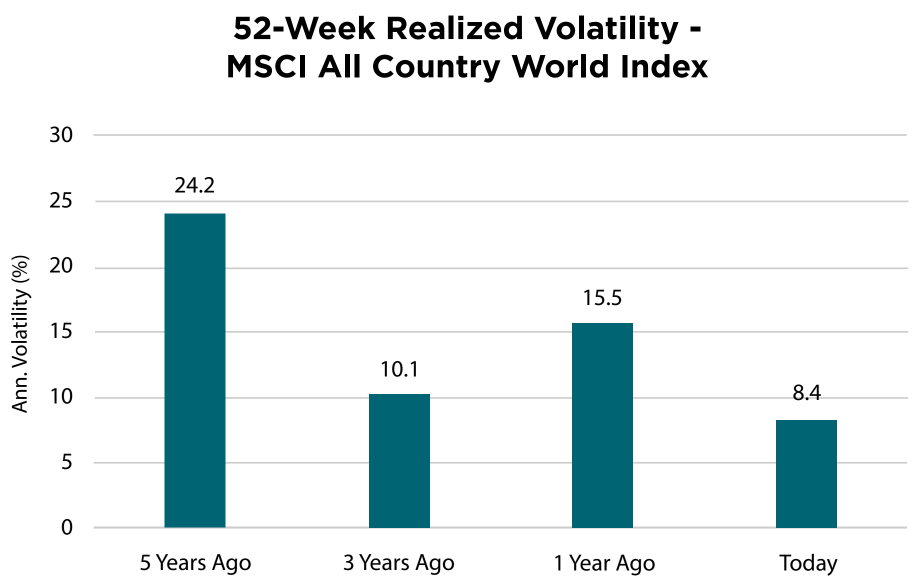
Mr. Smith holds the Chartered Financial Analyst (CFA) designation and is a member of the CFA Society of San Francisco, Pittsburgh, and Nebraska. He also is a member of the Society of Quantitative Analysts.

Does Low Volatility Matter When it Comes to Risk-Budgeted Portfolios?

One thing we analyze quite a bit as "Risk Budgeters" is the evolution of risk in the markets as defined by volatility. Volatility has long been used by investors to gauge uncertainty and emotion in regard to asset prices. Historically, higher levels of volatility in most instances have been associated with greater swings for the markets. These have also been followed by greater opportunities for active managers to add value.

More recently, however, equity market volatility has moved quite low to levels we haven't seen in a long time. Looking at a 52-week period of realized volatility for the MSCI ACWI Index, we find global equity volatility today is much lower than it was five years ago. In fact, it is currently about 65% lower than it was this time five years ago. Despite the more recent spike in global equity market volatility about one year ago, overall global equity market volatility has moved meaningfully lower, not higher, over the past five years.

So, what is the story for clients in Risk-Budgeted portfolios? First, investors should remember



Source: FactSet, MSCI. As of 5/5/2017.

CLS uses Risk Budgeting as a mechanism to measure and assess risk irrespective of the current risk environment. The Risk Budgeting approach examines risk relative to its current status for a global equity portfolio and thus provides a clear and definitive way to respond to any changes we may see, including market volatility. Even in the event that market volatility moves higher, our Risk Budgeting Methodology will automatically reflect these changes through the Risk Budget scores of each investment we own, and it may result in rebalancing back to our desired Risk Budget targets if such a move is warranted.

Next, investors should not look at low volatility as a cautious consideration when it comes to Risk-Budgeted portfolios. Risk Budgeting is a great tool for managing risk in periods such as these and will continue to help ensure investors' portfolios remain on track to meeting their long-term objectives.

The Emotional Connection to Value Investing

Last weekend marked another big event as thousands of investors and shareholders converged in Omaha (where CLS is headquartered) for the annual Berkshire Hathaway shareholders' meeting. Often referred to as the "Woodstock for Capitalists," the event draws investors from all over the world to downtown Omaha to hear the words of wisdom and insight from world-renowned investors Warren Buffett and Charlie Munger.

At CLS last week, we had our own exciting forum. We hosted two well-known investment managers who spoke during our quarterly Investment Committee Meeting on the topic of value investing ahead of the annual Berkshire meeting. We were honored to host Steve Lipper from Royce Funds (a renowned small-cap manager) and Chris Davis from Davis Funds (a legendary large-cap value manager).

Both individuals insightfully described what each of their firms do as investors. Both were very distinct and intellectually enlightening in explaining their views on finding value. What they shared in common was a genuine passion to strive for excellence while recognizing success as a value investor doesn't require being right 100% of the time.

The Berkshire and the Investment Committee meetings presented some of the most interesting conversations I've heard in years when it comes to thinking about the nature of being a value-minded investor.

Value investing is more than just formulas and numbers for assessing the current price of a business. It has to go beyond what makes sense on a financial statement to understanding the quality of the decisions being made by management, particularly whether they are striving to maintain a meaningful advantage over the competition. It ultimately has to be a function of price, as well as a means to ensure we are not overpaying for what we believe a company is likely to deliver over the long term.

As ETF investors at CLS, although we are not selecting securities down at the stock level, we do spend quite a bit of time ensuring we aren't paying up for any opportunity we pursue in building global, balanced, Risk-Budgeted portfolios. In fact, over the years, we've continued to enhance the way we assess value through tools such as the Relative Valuation Chart Pack, the CLS Edge Score, and the ongoing research we do within our broad asset class ETF teams to conduct bottom-up analysis on securities held in the ETFs we utilize in portfolios.

Value and the notion of value investing will remain at the center of what we do and carries a special place in our hearts as a means to create a tangible experience for clients in our portfolios. Our 2017 Investment Theme of Global Value is especially important as we continue to search for opportunities around the world to help our clients meet their needs for the long haul.

The Russell 3000 Index is an unmanaged index considered representative of the U.S. stock market. The index is composed of the 3,000 largest U.S. stocks. The S&P 500® Index is an unmanaged composite of 500-large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. The Russell 2000® is an index comprised of the 2,000 smallest companies on the Russell 3000 list and offers investors access to small-cap companies. It is a widely recognized indicator of small capitalization company performance. The MSCI All-Countries World Index, excluding U.S. (ACWI ex US) is an index considered representative of stock markets of developed and emerging markets, excluding those of the US. The MSCI EAFE Index is a composite index which tracks performance of international equity securities in 21 developed countries in Europe, Australia, Asia, and the Far East. The MSCI Emerging Markets Index is a composite index which tracks performance of large and mid-cap firms across 21 countries classified as emerging market countries. The Barclay's Capital U.S. Aggregate Bond® Index measures the performance of the total United States investment-grade bond market. The Barclay's Capital 1-3 Month U.S. Treasury Bill® Index includes all publicly issued zero-coupon U.S. Treasury Bills that have a remaining maturity of less than 3 months and more than 1 month, are rated investment grade, and have $250 million or more of outstanding face value. The Bloomberg Commodity Index is made up of 22 exchange-traded futures on physical commodities and represents 20 commodities that are weighted to account for economic significant and market liquidity. An index is an unmanaged group of stocks considered to be representative of different segments of the stock market in general. You cannot invest directly in an index.

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