Monthly Perspectives covers CLS Investment’s views on what areas of the market we believe are most attractive, how we’re positioned across our portfolios, why we allocate to the areas we do, and our outlook for the next 12 months.

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RISK BUDGETING

CLS holds three important beliefs about investment risk that guide us in building your portfolio:

1. All investors have a capacity to bear risk, and the best way to manage risk is to measure it, rather than relying on a traditional stock-to-bond ratio.

2. Over the long term, investors are rewarded for bearing risk; having too little risk hurts investor returns.

3. Investment methodologies should be designed to pair a disciplined risk management system with an active and flexible approach.

Much like a scale keeps weight balanced, Risk Budgeting ensures that the amount of risk in the portfolio is equal to the level of risk the investor is comfortable taking.

- On the left side of the CLS Risk Budgeting scale, the investor’s Risk Budget is represented along a continuum from aggressive to conservative.
- On the right side, asset classes are represented along the same continuum, which accounts for the fact that some stocks assume lower risk than some bonds.

When markets change and different asset classes become attractive, moves are made within the portfolio in an attempt to take advantage of those areas that are relatively attractive. If a move makes the portfolio too aggressive or too conservative, a reciprocal adjustment is made to keep the portfolio within its specified Risk Budget range.

RISK ALIGNED TO YOUR LEVEL OF COMFORT

Everyone has a certain level of comfort: some may like the thermostat set at 69 degrees, others may prefer 73. No matter what the weather is like outside, the thermostat works to keep the temperature inside at a designated level. Risk Budgeting is essentially a thermostat for your portfolio. Once your Risk Budget is set, CLS consistently monitors and analyzes the assets in your portfolio to keep the risk level constant no matter how global market conditions change.
INVESTMENT THEMES

BE ACTIVE

CLS is active at the overall portfolio level by tilting toward favorable asset classes, including international stocks and value stocks.

When building portfolios, CLS prefers to use actively managed funds over those that are passive. CLS also prefers factor-based ETFs, known as “smart beta,” which tilt toward factors such as value, momentum, and quality.

The Be Active Investment Theme may be addressed by investing in ETFs such as:
- Fundamentally-weighted exposure to emerging market stocks: PXH (Invesco FTSE RAFI Emerging Markets ETF)
- Multi-factor exposure to U.S. stocks: QARP (Xtrackers Russell 1000 U.S. Quality at a Reasonable Price ETF)
- Active-managed fixed income exposure: TOTL (SPDR DoubleLine Total Return Tactical ETF)

BE RESILIENT

CLS places emphasis on non-cyclical sectors that should be resilient in anticipation of late-cycle market behavior. These sectors include consumer staples and healthcare.

CLS is creative with diversification by utilizing investments that are not correlated with stock or bonds.

We use alternative investments and real assets to improve diversification.

The Be Resilient Investment Theme may be addressed by investing in ETFs such as:
- Fundamentally-weighted exposure to U.S. healthcare companies: PJP (Invesco Dynamic Pharmaceuticals ETF)
- Merger arbitrage strategy exposure: MNA (IQ Merger Arbitrage ETF)
- Actively-managed commodity exposure: FTGC (First Trust Global Tactical Commodity Strategy)

BE INNOVATIVE

CLS sees a bright future for the markets due to innovative technologies in a variety of industries, including cybersecurity, clean energy, fintech, artificial intelligence, and many more.

We will look to invest in these innovative opportunities that are reshaping the global economy.

The Be Innovative Investment Theme may be addressed by investing in ETFs such as:
- Exposure to global exponential technologies: XT (iShares Exponential Technologies ETF)
- Market-cap weighted exposure to financial technology companies: FINX (Global X FinTech ETF)
- Quantitative-weighted exposure to mainly U.S. innovative companies: KOMP (SPDR Kensho New Economies Composite ETF)
**12-MONTH EQUITY MARKET OUTLOOK**

We currently believe that returns for the equity market will be **below** the long-term average over the next 12 months.

In summary, we believe there is a **57%** probability that the U.S. equity markets will produce a positive return in the next 12 months, with a **33%** chance of a double-digit return.

<table>
<thead>
<tr>
<th>12-Month Rolling Returns</th>
<th>Current CLS Outlook</th>
<th>Long-Term Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returns &gt; 20%</td>
<td>17%</td>
<td>34%</td>
</tr>
<tr>
<td>Returns between 10 and 20%</td>
<td>16%</td>
<td>23%</td>
</tr>
<tr>
<td>Returns between 5 and 10%</td>
<td>16%</td>
<td>11%</td>
</tr>
<tr>
<td>Returns between 0 and 5%</td>
<td>9%</td>
<td>8%</td>
</tr>
<tr>
<td>Returns between 0 and -5%</td>
<td>10%</td>
<td>6%</td>
</tr>
<tr>
<td>Returns between -5 and -10%</td>
<td>15%</td>
<td>5%</td>
</tr>
<tr>
<td>Returns &lt; -10%</td>
<td>18%</td>
<td>13%</td>
</tr>
</tbody>
</table>

**12-MONTH BOND MARKET OUTLOOK**

We currently believe that returns for the bond market will be **below** the long-term average over the next 12 months.

In summary, we believe there is a **68%** probability that the U.S. bond markets will produce a positive return in the next 12 months, with a **48%** chance of a return between **5%** and **0%**.

<table>
<thead>
<tr>
<th>12-Month Rolling Returns</th>
<th>Current CLS Outlook</th>
<th>Long-Term Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Returns &gt; 20%</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>Returns between 10 and 20%</td>
<td>5%</td>
<td>14%</td>
</tr>
<tr>
<td>Returns between 5 and 10%</td>
<td>14%</td>
<td>25%</td>
</tr>
<tr>
<td>Returns between 0 and 5%</td>
<td>48%</td>
<td>48%</td>
</tr>
<tr>
<td>Returns between 0 and -5%</td>
<td>23%</td>
<td>10%</td>
</tr>
<tr>
<td>Returns between -5 and -10%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Returns &lt; -10%</td>
<td>3%</td>
<td>0%</td>
</tr>
</tbody>
</table>
Within our Risk-Budgeted strategies, the CLS Investment Team actively adjusts exposure to the five continuums below and other areas of the market.

- The current approximate CLS asset-weighted exposure relative to the CLS asset allocation benchmarks*
- The approximate CLS asset-weighted exposure from 12 months prior, relative to the CLS asset allocation benchmarks*. 
- The CLS Investment Team’s current bias toward which direction positioning may evolve over the next 12 months.

Baseline:
- 60% Domestic and 40% International
- 81% Developed and 19% Emerging
- 50% Value and 50% Growth
- 82% Large-Cap and 18% Small/Mid-Cap
- 75% Cyclic and 25% Non-Cyclical

*The active weights shown are versus a blended index comprised of 60% domestic equity and 40% international equity.
Within our Risk-Budgeted strategies, the CLS Investment Team actively adjusts exposure to the five continuums below and other areas of the market.

- The current approximate CLS asset-weighted exposure relative to the CLS asset allocation benchmarks*
- The approximate CLS asset-weighted exposure from 12 months prior, relative to the CLS asset allocation benchmarks*.
- The CLS Investment Team’s current bias toward which direction positioning may evolve over the next 12 months.

**Smart Beta**

- **Market-Cap**
  - Baseline: ETF Industry: 21% Smart Beta and 79% Market-Cap

**Alternatives**

- **High Exposure**
  - Baseline: 6% High Exposure and 94% Low Exposure

**Bond Quality**

- **High Quality**
  - Baseline: 79% High Quality and 21% Low Quality

**Bond Maturity**

- **Short Maturity**
  - Baseline: 15% Short Maturity and 85% Long Maturity

**Dollar**

- **Non-Dollar**
  - Baseline: 60% Dollar and 40% Non-Dollar

---

*The active weights shown are versus a blended index comprised of 60% domestic equity and 40% international equity.*
<table>
<thead>
<tr>
<th>Continuum</th>
<th>Current Overweight</th>
<th>Comments</th>
</tr>
</thead>
</table>
| Global: International vs. Domestic | International | • CLS is overweight international securities by 10% versus the Equity Baseline Portfolio (EBP).  
• International equities have underperformed domestic equities over the past 3 and 12 months.  
• Over the next 12 months, we expect to increase our international exposure.  
• International equities remain attractively priced while domestic markets continue to stay in overvalued territory.  
Allocating to international equities provides diversification benefits to portfolios because they are not perfectly correlated to domestic equities. Due to more attractive valuations, we expect higher future risk-adjusted returns from international markets compared to domestic markets. |
| International: Emerging vs. Developed | Emerging | • CLS is overweight emerging market securities by 22% versus the international portion of the EBP.  
• Emerging markets have underperformed developed international markets over the past 3 and 12 months.  
• Over the next 12 months, we expect to increase our exposure to emerging international markets.  
• Accommodative local market policies continue to bode well for emerging markets. Higher local rates, weaker currencies, and recovering exports to developed markets have helped improve emerging market countries’ current account balances. We believe that developed international countries have some of the most attractive valuations across the world, which makes them great buying opportunities. |
| Global Style: Value vs. Growth | Value | • CLS is globally overweight value by 9% versus the EBP.  
• Value has underperformed growth over the past 3 and 12 months.  
• Over the next 12 months, we expect to increase our exposure to the value style box.  
• The value style box tends to be made up of companies with strong fundamentals including earnings, dividends, book value, and cash flow that are selling at a bargain price, given their quality. High-quality, value companies are typically less sensitive to business cyclical and experience smaller price swings during market volatility. |
| Global Size: Large-Cap vs. Small/Mid-Cap | Small/Mid-Cap | • CLS is globally overweight small and mid-cap companies by 7% versus the EBP.  
• Small/mid-caps have underperformed large-caps over the past 3 months and underperformed over the past 12 months.  
• Over the next 12 months, we expect to increase our small/mid-cap exposure.  
• Small-caps possess greater growth potential relative to their larger counterparts. In addition, a greater universe of opportunities enhances the potential for future outperformance. Small/mid-cap are trading at more attractive prices relative to their larger counterparts. |
| Global Sector: Cyclical vs. Non-Cyclical | Non-Cyclical | • CLS is currently overweight non-cyclical securities by 2% versus the EBP.  
• Non-cyclical sectors have underperformed cyclical sectors over the past 3 months and 12 months.  
• Over the next 12 months, we expect to increase our exposure to non-cyclical sectors.  
• Valuations in non-cyclical sectors (e.g. healthcare, consumer staples, utilities) are more attractive than their cyclical counterparts which is why we expect to increase our exposure there. Non-cyclical sectors also tend to have more resilient characteristics than their cyclical peers during an economic slowdown or extreme market volatility. |
| Smart Beta vs. Market-Cap | Smart Beta | • CLS is currently overweight smart beta exposure by 17% versus the ETF industry.  
• Smart beta exposure has outperformed market-cap weighted exposure over the past 3 months and 12 months.  
• Over the next 12 months, we expect to increase our exposure to smart beta.  
• Smart beta provides rules-based exposure to risk-adjusted return enhancing investment premiums. |
| Alternatives: High Exposure vs. Low Exposure | High Exposure | • CLS is globally overweight alternative securities by 1% versus our internal asset allocation benchmark. We define alternatives as managed futures, real estate, commodities, hard assets, currencies and derivatives.  
• High exposure to alternatives has underperformed low alternative exposure over the past 3 months and outperformed over the past 12 months.  
• Over the next 12 months, we expect to increase our alternatives exposure.  
• In an uncertain interest rate environment, several non-traditional asset classes have particular appeal for their correlation and income benefits to portfolios. |
| Bond Quality: Low Quality vs. High Quality | High Quality | • CLS is overweight high-quality bonds by 5% versus the Fixed Income Baseline Portfolio.  
• High-quality, low-yielding bonds have outperformed low-quality, high-yielding bonds over the past 3 months and 12 months.  
• Over the next 12 months, we expect to increase our exposure to bonds with high-quality characteristics.  
• High-quality (investment grade) bond yields provide a positive spread above Treasuries. Additionally, these issues offer low probabilities of default and play an important role in a diversified portfolio. |
| Bond Maturity: Long Maturity vs. Short Maturity | Short Maturity | • CLS is overweight short-maturity bonds by 4% versus the Fixed Income Baseline Portfolio.  
• Short maturity bonds (1 to 3 years) have underperformed long maturity bonds (7 to 20 years) over the past 3 and 12 months.  
• Over the next 12 months we expect to increase our exposure to short maturity bonds.  
• Short duration provides value by reducing interest rate sensitivity which is the biggest risk to bonds. They are also great diversifiers when stocks are not performing well. |
| Dollar vs. Non-Dollar | Non-Dollar | • CLS is overweight non-dollar international exposure by 9% versus the EBP.  
• Non-dollar exposure has underperformed dollar exposure over the past 3 months and 12 months.  
• Over the next 12 months, we expect to increase our exposure to non-dollar-denominated securities.  
• The trend for the dollar seems extended. The improvement in growth in international markets supports use of local currencies.  
• Small-caps possess greater growth potential relative to their larger counterparts. In addition, a greater universe of opportunities enhances the potential for future outperformance. Small/mid-cap are trading at more attractive prices relative to their larger counterparts. |
## Equity Sector Outlook

**AUGUST 2019**

<table>
<thead>
<tr>
<th>Sector</th>
<th>CLS Weight¹</th>
<th>Valuation²</th>
<th>Performance³</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer Discretionary</td>
<td>Neutral</td>
<td>– –</td>
<td>+ – –</td>
<td>Strong job market with a low unemployment rate and improving wage growth reflect a positive outlook for the sector. Strong competition in retail is impacting margins.</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>Neutral</td>
<td>=</td>
<td>+ + – –</td>
<td>Grocers and staple retailers have cut costs to create value and support margins. E-commerce is starting to encroach on non-durable products, historically sold in physical stores.</td>
</tr>
<tr>
<td>Energy</td>
<td>Overweight</td>
<td>++</td>
<td>– – – –</td>
<td>Beneficiary of increasing international market consumption as developing economies improve. Technological advancements have improved margins through lower costs.</td>
</tr>
<tr>
<td>Financials</td>
<td>Neutral</td>
<td>+ + – – –</td>
<td>+ – –</td>
<td>Increasing return of wealth to shareholders and balance sheet strength show growth in health and stability. Rising housing prices could weaken mortgage demand, hurting some areas of the sector.</td>
</tr>
<tr>
<td>Healthcare</td>
<td>Overweight</td>
<td>=</td>
<td>– + – –</td>
<td>Aging U.S. population and increased insured coverage base from the ACA could boost demand. High cash levels on company balance sheets could drive mergers and acquisitions, higher dividends, or share buybacks.</td>
</tr>
<tr>
<td>Industrials</td>
<td>Neutral</td>
<td>– + – –</td>
<td>– – –</td>
<td>Cash at high levels on corporate balance sheets could push management to boost equipment purchases. If trade tensions further without resolution, there could be damages to the sector’s bottom line.</td>
</tr>
<tr>
<td>Information Technology</td>
<td>Neutral</td>
<td>– – + +</td>
<td>+ – –</td>
<td>Companies looking to improve efficiency and productivity through technology upgrades could help boost profits. Increased global competition continues to compress profit margins.</td>
</tr>
<tr>
<td>Materials</td>
<td>Neutral</td>
<td>++ – – –</td>
<td>– – –</td>
<td>Emerging markets are increasing resource demand to support infrastructure building. A shortage of skilled labor has led to rising wage costs in certain segments of the market which is weighing down on the sector.</td>
</tr>
<tr>
<td>Real Estate</td>
<td>Overweight</td>
<td>+ – + –</td>
<td>– – –</td>
<td>With rates still historically low, investors can buy property at a cheap rate, providing the potential of higher income. Apartment demand has seen strength from demographic trends, benefitting companies within that market.</td>
</tr>
<tr>
<td>Communication Services</td>
<td>Neutral</td>
<td>+ + + –</td>
<td>– – –</td>
<td>With a better ability to target consumers with personalized content, advertisers may be more inclined to spend money with these companies. Companies may face rising expenses to ensure faster network speeds and more content, serving as a drag on profitability.</td>
</tr>
<tr>
<td>Utilities</td>
<td>Neutral</td>
<td>– – + –</td>
<td>– – –</td>
<td>The sector offers attractive dividends compared to a conservative fixed income alternative. Fixed costs have steadily increased, which has been a sign of underperformance in the past.</td>
</tr>
</tbody>
</table>

¹Weightings are as of 7/31/2019 and are based on current allocations to CLS’s proprietary funds relative to the Equity Baseline Portfolio benchmark (60% Morningstar US Market Index/ 40% Morningstar Global ex US Large-Mid Index).

²Relative valuation uses a sector price multiple composite (equal weighted average of P/E, P/B, P/CF, and P/S for MSCI ACWI Sectors relative to the MSCI ACWI Index) as of 3/31/2019 compared to the historical monthly composite measures since the year 2001. Data obtained from Factset. Valuation rating based on standard deviations away from historic average: if between -0.49 & 0.49 (=), 0.50 & 0.99 (+), -0.50 & -0.99 (+), 1.0 or above (+ –), -1.0 or below (++).

³Sector performance relative to the broad global market (as measured by the MSCI ACWI Index) measured over 3- and 12-month periods. Outperforming sectors are marked with a (+), underperforming sectors are marked with a (–).
<table>
<thead>
<tr>
<th>Sector</th>
<th>CLS Weight¹</th>
<th>Valuation²</th>
<th>3M</th>
<th>1YR</th>
<th>3YR</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset Backed</td>
<td>Overweight</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>The reduction of the Federal Reserve’s balance sheet should continue to pressure agency MBS higher, while spreads are tighter than average, they still offer some incremental yield above Treasuries.</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>Neutral</td>
<td>=</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>A beneficiary of continued careful monetary policy from major developed central banks, EM bonds are now relatively expensive caused by a risk-on attitude from investor at the beginning of the year.</td>
</tr>
<tr>
<td>Investment Grade</td>
<td>Neutral</td>
<td>—</td>
<td>+</td>
<td>+</td>
<td>+</td>
<td>Investment grade corporate bonds are typically more sensitive to interest rate risk than credit risk. Recent volatility in this space along with concerns of debt servicing capabilities and fallen angels warrant a more cautious approach.</td>
</tr>
<tr>
<td>Corporate</td>
<td>Neutral</td>
<td>—</td>
<td>—</td>
<td>+</td>
<td>+</td>
<td>We do not expect widespread defaults in the near-term. Recent market activity has sparked a large sell-off in the High Yield bond space. It has been subject to high volatility following the equity markets.</td>
</tr>
<tr>
<td>High Yield</td>
<td>Underweight</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>+</td>
<td></td>
</tr>
<tr>
<td>Inflation Protected</td>
<td>Underweight</td>
<td>=</td>
<td>+</td>
<td>—</td>
<td>—</td>
<td>Market based measures of expected inflation have been well below expectations for much of this year. As interest rates hikes are priced in to be put on hold, TIPS should underperform nominal Treasuries.</td>
</tr>
<tr>
<td>International</td>
<td>Neutral</td>
<td>—</td>
<td>+</td>
<td>—</td>
<td>—</td>
<td>A strengthening dollar has been a headwind for international bonds recently. Weaker economic data out of the European region have pressured yields lower, mirroring much of the U.S. Treasury movement.</td>
</tr>
<tr>
<td>Municipals</td>
<td>Overweight</td>
<td>=</td>
<td>+</td>
<td>+</td>
<td>—</td>
<td>Muni bonds have outperformed Treasuries recently, and remain relatively expensive. The overhauled tax plan has largely driven demand for these types of tax-protected securities.</td>
</tr>
<tr>
<td>Treasuries</td>
<td>Underweight</td>
<td>—</td>
<td>—</td>
<td>+</td>
<td>—</td>
<td>Even with the backdrop of strong economic growth, recent market risks have caused increased demand for safe havens, resulting in lower yields and worse valuations, especially with the Fed in a dovish stance.</td>
</tr>
</tbody>
</table>

¹Weightings and performance are as of 7/31/2019 and are based on current allocations to CLS’s proprietary funds versus an internal asset allocation benchmark (Neutral View Portfolio). The benchmark includes 50% Bloomberg Barclays U.S. Aggregate Bond, 20% Bloomberg Barclays Capital High Yield, 10% 30-Day U.S. Treasury Bill, 10% Bloomberg Barclays Capital TIPS, 5% International Bloomberg Barclays Capital Global Treasury Ex-U.S. Capped, 5% Bloomberg Barclays Capital Emerging Market Bonds.

²Relative valuation uses 10 year muni ratio for municipal bonds, 10-year breakeven rate for TIPS, current yield for Treasuries, and option adjusted spread for the other segments as of the end of the reporting month compared to the historical levels going back 10 years. We rank the current measures as a percentile of their historic ranges and deem a sector: (-) overvalued (25th percentile or below), (=/-) above

³Sector performance relative to the broad fixed income market (as measured by an internal benchmark) measured over 3- and 12-month periods. Outperforming sectors are marked with a (+), underperforming sectors are marked with a (–).
CLS is globally at our internal asset allocation benchmark, and we expect to increase alternatives allocations in the future. We define alternatives as investments in assets other than stocks, bonds, and cash (alternatives can include managed futures, real estate, commodities, hard assets, and derivatives). We also describe alternatives as investments that use strategies that go beyond traditional ways of investing, such as long/short or arbitrage strategies.

- High exposure to alternatives has underperformed low alternative exposure over the past 3 and 12 months.
- In an uncertain interest rate environment, several non-traditional asset classes have particular appeal for their correlation and income benefits to portfolios.
- Alternatives exposure is part of our Be Resilient theme in investment portfolios.

**LIQUID ALTERNATIVES**

**IQ Merger Arbitrage ETF (MNA)**
Provides exposure to a long/short merger arbitrage strategy that purchases companies being acquired and hedges that purchase by going "short" the relevant sector of the acquired security.

**JP Morgan Diversified Alternative (JPHF)**
Provides exposure to a variety of alternative strategies such as long/short factor exposure, event-driven, and macro-based. The fund is actively managed.

**AGFiQ US Market Neutral Anti-Beta (BTAL)**
Provides long exposure to low-beta (low-risk) stocks while going short (betting against) high-beta stocks. This provides a pure play on the low volatility factor.

**COMMODITIES**

**First Trust Global Tactical Commodity (FTGC)**
Provides actively managed exposure to up to 35 different commodities through a risk-managed, quantitatively driven approach.

**Invesco DB Commodity Index (DBC)**
Allocates to 14 different commodity futures using a strategy that utilizes the optimal futures contracts from a cost of implementation perspective.

**Invesco DB Agriculture (DBA)**
Allocates to 10 different agricultural commodity futures using a strategy that utilizes the optimal futures contracts from a cost of implementation perspective.

CLS is not affiliated with any of the companies listed above. While some CLS portfolios may contain one or more of the specific ETFs or Mutual Funds mentioned, CLS is not making any comment as to the suitability of these or any investment product for use in any portfolio.
You Have to be Different to Win

• CLS has over two-times the smart beta exposure than the overall industry

• CLS has eight-times the exposure to actively-managed ETFs compared to the overall industry

• CLS has essentially half of the exposure to market-cap weighted ETFs compared to the overall industry

Source: Morningstar Direct as of 6/30/2019. Sum of each segment may be lesser or greater than 100% due to rounding.
REASONS MARKETS COULD RISE

- Trade deals are made, reducing negative sentiment toward international trading partners
- Global economic growth recovers
- The Trump administration signals that the U.S. is close to a trade agreement with our trading partners
- Fundamentally sound international companies outperform expectations
- More accommodative U.S. monetary policies (the Fed cuts rates)

REASONS MARKETS COULD FALL

- An acceleration of a trade war, more tariffs
- U.S. companies with excessive valuations (i.e., FANMAG stocks) missing Wall Street’s high expectations
- The U.S. economy starts to slow
- The Fed raises rates
- The two-year and 10-year bond yield curve inverts
FAVORITE RECENT ARTICLES, PODCASTS & VIDEOS

CLS's Weekly 3 for the week of August 20, 2019 covers:
- Trade tensions, what now?
- Reading into the yield curve
- Direct indexing & ETFs

CLS's Weekly 3 for the week of August 13, 2019 covers:
- We believe market sell-offs can be big opportunities for investors
- Women continue to have a greater influence on the U.S. economy
- Interesting similarities between Bitcoin and gold

CLS's Weekly 3 for the week of August 6, 2019 covers:
- What does the Fed’s rate cut mean for investors?
- Thoughts on market opportunities from two important guests of CLS
- It’s our higher calling to counsel investors and help them stay balanced and invested

"Is a Recession Really That Bad" blog by Kostya Etus, CFA, Senior Portfolio Manager
"Is Weather Affecting My Portfolio" blog by Michael Hadden, Investment Research Analyst

CLS’s “The Weighing Machine” podcast is on Google Play and iTunes. On “The Weighing Machine,” Robyn Murray and Rusty Vanneman cut through the market clamor and focus on time-tested, proven principles that help financial advisors and investors reach their long-term financial goals.

MONTHLY VIDEO
Alpha: Also called the risk-adjusted return, is the difference between an asset's expected return based on the portfolio's risk and its actual return.

Alternative: Divides the asset allocation between high and low exposure alternative asset classes (commodities, currencies, and derivatives).

Beta: A measure of volatility, or systematic risk of a portfolio in comparison to the market as a whole.

Bond Quality: Divides the fixed income allocation between securities that are investment grade vs. non-investment grade.

Bond Maturity: Divides the fixed income allocation between securities considered to have short or intermediate maturities vs. those with long maturities.

Dollar: Divides the international asset allocation between local and dollar-denominated currency.

Domestic Style: Divides the equity allocation between companies categorized as growth vs. value.

Domestic Size: Divides the equity allocation between companies that are large-cap vs. small- and/or mid-cap.

Downside Capture: A measure of performance in down markets. The ratio is calculated by dividing the manager’s returns by the returns of the index during the down-market and multiplying that factor by 100.

Global: Divides the equity allocation between companies located within the United States vs. internationally.

Global Sector: Divides the equity allocation between companies categorized as cyclical (materials, industrials, financials, energy, consumer discretionary, and technology) vs. non-cyclical sectors (utilities, telecomm, consumer staples, and healthcare).

International: Divides the equity allocation between companies located internationally in developed vs. emerging markets.

Smart Beta: Divides the equity allocation between smart beta and market-cap.
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CLS Continuums Commentary

The Equity Baseline Portfolio (EBP) is a blended index comprised of 60% domestic equity (represented by the Morningstar US Market Index) and 40% international equity (represented by the Morgan Stanley Global ex US Large -Mid Index), rebalanced daily. The Morningstar U.S. Market Index is an index that measures the performance of U.S. securities and targets 97% market capitalization coverage of the investable universe. It is a diversified broad market index. Morningstar Global ex U.S. Large-Mid Index is an index that measures the performance of Global Markets (ex-U.S.) equity markets targeting the top 90% of stocks by market capitalization. The volatility of the indexes may be materially different from the individual performance attained by a specific investor. In addition, portfolio holdings of investors may differ significantly from the securities that comprise the indexes. You cannot invest directly in an index. 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. 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. CLS Strategies are not sponsored, endorsed, sold or promoted by Morningstar, Inc. or any of its affiliates (all such entities, collectively, "Morningstar Entities"). The Morningstar Entities make no representation or warranty, express or implied, to the owners of the CLS Strategies or any member of the public regarding the advisability of investing in CLS Strategies generally or in the specific strategy presented here in particular or the ability of the CLS Strategies to track general market performance.

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CLS Continuums

Growth stocks are defined based on a strong growth style (high growth rates for earnings, sales, book value, and cash flow) and a weak value style (high price ratios and low dividend yields), and typically have higher price volatility than other stocks. Value Investing refers to the strategy of selecting undervalued stocks which trade for less than their intrinsic values. Investors utilizing a value strategy choose undervalued stocks in the hopes the market will eventually recognize the company's worth which will generally result in higher gains. The most apparent risks associated with value investing are the investor overestimating a company's intrinsic value or the projected value is never realized by the market.

Small Cap Investments typically invest in smaller companies whose market capitalization is between $2 Billion and $10 Billion. The Barclays Capital Small-Cap Index provides a measure of the performance of publicly issued U.S. dollar high yield corporate bonds with above average liquidity. Barclays Capital Small-Cap Index includes all publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity, are rated investment grade, and have $250 million or more of outstanding face value.

Cyclical industries are industries particularly sensitive to the business cycle – retail corporations, for example. For these industries, revenues are generally higher in periods of economic growth and lower in periods of economic decline, stock prices for issuers in this industry are heavily correlated with corporate revenues. Noncyclical industries, or defensive stocks, are the opposite – stocks which generally experience smaller gains during periods of economic growth but generally experience far less loss during economic downturns. Water and food industries are examples of non-cyclical industries.

International investing is an investment strategy where investors chose global investment instruments. International investing can be accomplished utilizing a variety of investment vehicles including, but not limited to, ETFs, American Depository Receipts, or a direct investment in a foreign stock exchange. All of the risks of domestic investing are present. Added risks might include unstable international political and economic conditions, currency fluctuations, foreign controls on investment and currency exchange, withholding taxes, a lack of adequate company information, less liquid and more volatile markets, and a lack of governmental regulation which subject foreign securities to risk.

Emerging market investing refers to the practice of developing a market in a foreign nation. The prerequisites of this practice include a market within the foreign nation along with some form of regulatory body. Emerging market investing refers to the practice of investing in a developing market of a foreign nation. The prerequisites of this practice include a market within the foreign nation along with some form of regulatory body. Risks for emerging markets include, for instance, risks relating to the relatively smaller size and lesser liquidity of these markets, high inflation rates and adverse political developments.

Bond ratings refer to the practice of investing in non-traditional asset classes. Alternative investments may include hedge funds, managed futures, real estate, commodities, and derivatives contracts.

Relative returns are determined by price-to-equity ratio, price-to-sales ratio, price-to-book ratio, price-to-dividend, and price-to-cash flow ratio.
back to January 2001 and compared to where the current overall valuations lie.

The allocations are compared to the Morningstar US Market Index. The Morningstar U.S. Market Index is an index that measures the performance of U.S. securities and targets 97% market capitalization coverage of the investable universe. It is a diversified broad market index. You cannot invest directly in an index.

The consumer discretionary sector is a sector composed of enterprises selling goods and services considered nonessential. Examples of this sector include most retailers, the entertainment industry, the automobile industry, etc. Consumer staples is a sector composed of enterprises selling essential goods and services, such as food and beverage producers/ manufacturers. The energy sector is composed of stocks representing energy producers and suppliers. Included in this sector are enterprises which explore for and develop energy deposits, such as oil exploration and drilling companies. The financial sector is the sector of stocks representing firms which provide financial services to both retail as well as commercial clients. May include investment funds, insurance companies, real estate companies, and banks. The healthcare sector is composed of stocks representing medical services and manufacturing. Included in this sector are biotech firms, HMOs, and hospital management service providers. The industrial sector is a sector representing enterprises which manufacture and produce industrial goods such as aerospace manufacturers, defense manufacturers, industrial machinery, etc. The technology, or information technology, sector is a tertiary sector representing enterprises engaged in the research, development, or distribution of technology goods and services. Examples include electronics manufacturers, software creators, computer manufacturers, etc. The basic materials sector, or simply 'materials sector,' is a primary sector representing enterprises engaged in the discovery, development, and processing of raw materials such as mining companies and chemical producers. The telecommunications sector is a sector representing enterprises which provide telephone or internet products and services to consumers. The utilities sector is a sector representing enterprises that provide gas, power, and water services to consumers. The utilities sector is a sector representing enterprises that provide gas, power, and water services to consumers.

**Fixed Income Outlook**

Fixed Income is an investment style designed to return income on a periodic basis. Generally, fixed income strategies invest in bonds, real estate, loans, and other types of debt instruments. Diversifiable risks associated with fixed income investing include, but are not limited to, opportunity risk, credit risk, reinvestment risk, and call risk.

An asset-backed security is a security which is backed by a loan, lease, receivables, or other debt against assets other than real estate and mortgage-backed securities. Emerging markets, in regards to fixed income, refers to investing in fixed income securities issued by the government of a developing nation or corporations within these nations. Likewise, international investing, in terms of fixed income, refers to investing in the same line of products but from a foreign nation which may or may not be a developing nation. Investment grade refers to the credit rating of a particular security. In the S&P rating system, securities are rated from AAA to D. Securities with ratings of AAA, AA, A, and BBB are considered investment grade. Investment grade is not a guarantee that the security will produce a return. High yield bonds refer to bonds with a low credit rating that have the potential for substantially higher yield returns than investment grade bonds; these bonds are also referred to as junk bonds. High yield bond prices tend to fluctuate more than higher rated bonds; their values will generally fall as interest rates rise and are affected by short-term credit developments to a greater degree than higher rated bonds. An inflation protected security (IPS) is one which guarantees a real rate of return which is the nominal return minus the inflation rate. While inflation-protected securities often come in the form of U.S. Treasury Bonds, also referred to as TIPS, corporate entities may issue an IPS as well. Municipal bonds are a type of debt security issued by a state, municipality, or county for the purpose of financing expenditures. While municipal bonds are free from federal taxes, state and local governments are free to set their own tax policy in regards to municipal bonds. Treasury Securities are securities issued by the U.S. Government. Generally issued to fund its operations and backed by the full faith and credit of the U.S. Government, treasury securities are considered extremely low risk investments. Treasuries may include: Treasury Bills (T-Bills), short-term debt instruments which mature one month to one year after issue; Treasury Notes, which mature at one to ten years after issue; Treasury Bonds (T-Bond), marketable, long-term fixed-interest debt instruments with a maturity over ten years; or Treasury Inflation Protected Securities (TIPS), long-term debt instruments that mature between five and twenty years and are indexed to inflation in order to shield investors from inflation risks. The return on treasury investments is measured by the Treasury Yield.

**Alternatives Outlook**

Alternative investing refers to the practice of investing in any asset class other than stocks, bonds, or cash (otherwise known as the "traditional" asset classes). Alternative investments may include managed futures, real estate, commodities, derivatives, etc. Unsystematic risks will depend on the specific investment and may include, but are not limited to, business risk, liquidity risk, and capital risk.

Commodity instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargo, tariffs, and international economic, political, and regulatory developments.

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DISCLOSURES

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