MONTHLY PERSPECTIVES COVERS CLS INVESTMENTS’S VIEWS ON WHAT AREAS OF THE MARKET 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.
2019 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)

CLS is not affiliated with any of the companies listed above. While some CLS portfolios may contain one or more of the specific ETFs mentioned, CLS is not making any comment as to the suitability of these or any investment product for use in any portfolio.
CLS 12-Month U.S. Markets Outlook

The CLS portfolio management team believes that the future is uncertain so forecasting to a specific number is not helpful or reliable. Therefore, our outlooks are based in terms of probabilities.

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 56% 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>13%</td>
<td>11%</td>
</tr>
<tr>
<td>Returns between 0 and 5%</td>
<td>10%</td>
<td>8%</td>
</tr>
<tr>
<td>Returns between 0 and -5%</td>
<td>11%</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 67% 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>15%</td>
</tr>
<tr>
<td>Returns between 5 and 10%</td>
<td>13%</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>26%</td>
<td>10%</td>
</tr>
<tr>
<td>Returns between -5 and -10%</td>
<td>6%</td>
<td>0%</td>
</tr>
<tr>
<td>Returns &lt; -10%</td>
<td>1%</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

*The active weights shown are versus a blended index comprised of 60% domestic equity and 40% international equity.
Investment Continuums
December 2019

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*
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1. **SMART BETA**
   - **Smart Beta**
   - Baseline - ETF Industry: 21% Smart Beta and 79% Market-Cap

2. **ALTERNATIVES**
   - **High Exposure**
   - Baseline: 6% High Exposure and 94% Low Exposure

3. **BOND QUALITY**
   - **High Quality**
   - Baseline: 79% High Quality and 21% Low Quality

4. **BOND MATURITY**
   - **Short Maturity**
   - Baseline: 15% Short Maturity and 85% Long Maturity

5. **DOLLAR**
   - **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.
Continuums Commentary
December 2019

<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 7.9% versus the Equity Baseline Portfolio (EBP).
• International equities have underperformed domestic equities over the past 3 months 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 provide 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 20% versus the international portion of the EBP.
• Emerging markets have underperformed developed international markets over the past 3 months and 12 months.
• Over the next 12 months, we expect to increase our exposure to developed international markets.
• Accommodative local market policies still 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. Developed international countries have some of the most attractive valuations across the world, which make them great buying opportunities. |
| Global Style: Value vs. Growth | Value | • CLS is globally overweight value by 10.9% versus the EBP.
• Value has outperformed growth over the past 3 months and has underperformed over the last 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 values, and cash flows that are selling at bargain prices, given their quality. High-quality, value companies are typically less sensitive to business cyclicality 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 7.4% versus the EBP.
• Small/mid-caps have outperformed large-caps over the past 3 months and underperformed in the last 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 globally overweight non-cyclical securities by 0.2% 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 cyclical sectors.
• Cyclical sectors, such as financials, have had a great year and we believe they should continue to do well as Europe seems to be rebounding from their slowdown. |
| Smart Beta vs. Market-Cap | Smart Beta | • CLS is currently overweight smart beta exposure by 17.0% versus the ETF Industry.
• Smart beta exposure has underperformed 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 0.4% 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 12 months.
• Over the next 12 months, we expect 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 3.7% versus the Fixed Income Baseline Portfolio.
• High quality, low yielding bonds have underperformed 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 1.0% versus the Fixed Income Baseline Portfolio.
• Short maturity bonds (1-3 year) have outperformed long maturity bonds (7-20 year) over the past 3 months and underperformed in the past 12 months.
• Over the next 12 months we expect to increase our exposure to long maturity bonds.
• We believe the Fed’s pause of rate changes creates an opportunity to invest in longer duration bonds with a lessened fear of volatility in bond prices. |
| Dollar vs. Non-Dollar | Non-Dollar | • CLS is overweight non-dollar international exposure by 7.9% versus the EBP.
• Non-Dollar exposure has outperformed Dollar exposure over the past 3 months and has underperformed over the past 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 support use of local currencies. |
<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>Consumer Discretionary</td>
<td>Neutral</td>
<td>–</td>
<td>–</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>–</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>–</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>–</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>Health Care</td>
<td>Overweight</td>
<td>=</td>
<td>+</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>Underweight</td>
<td>–</td>
<td>+</td>
<td>+</td>
<td>–</td>
<td>Weakness in the global economy could hurt by affecting spending plans. 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>+</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>–</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>+</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>+</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>+</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 11/30/2019 and are based on current allocations to CLS's proprietary funds relative to the Equity Baseline Portfolio benchmark (60% Morningstar US Index / 40% Morningstar Global ex U.S. Index).

²**Relative 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 11/30/2019 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 (++).**
## Fixed Income Outlook

December 2019

<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 resumption in the growing of the Federal Reserve’s balance sheet should not move agency MBS’s, and while spreads are tighter than average, they still offer some incremental yield above Treasuries.</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>Overweight</td>
<td>=</td>
<td>–</td>
<td>+</td>
<td>+</td>
<td>A beneficiary of relaxed monetary policy from major developed central banks, EM bonds are still relatively expensive caused by a risk-on attitude from investors at the beginning of the year. Currency remains a concern.</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. Corporates have shown continued resilience in the volatile market.</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 healthy and supported risk-on trends. 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>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>Inflation Protected</td>
<td>Underweight</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, along with rate cuts with the major of the world.</td>
</tr>
<tr>
<td>International</td>
<td>Neutral</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>–</td>
<td>Muni bonds have outperformed Treasuries recently, and remain very 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 moderate 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 11/30/2019 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 overweight alternative securities by 1% versus our internal asset allocation benchmark. We define alternatives as investments in assets other than stocks, bonds, and cash (e.g., managed futures, real estate, commodities, hard assets, and derivatives) or investments using strategies that go beyond traditional ways of investing, such as long/short or arbitrage strategies.

• High exposure to alternatives has underperformed low alternatives exposure over the past 3 and 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.

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.

IQ Hedge Multi-Strategy Tracker (QAI)
Top-down fund that replicates broad-based hedge fund returns using an ETF-of-ETF approach.

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.

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You Have to be Different to Win

• CLS has over two-times the smart beta exposure than the overall industry
• CLS has nine-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 11/30/2019. Sum of each segment may be lesser or greater than 100% due to rounding.
CLL’s Top Reasons Markets Could Rise or Fall

**REASONS MARKETS COULD RISE**

- Continuation of U.S. and China trade negotiations
  - A trade pact and tariff reductions between the two largest economies could stabilize markets, enhance business earnings, and increase consumer confidence.

- Fundamentally sound international companies outperform expectations
  - International companies with strong earnings and growth surprising on the upside could help globally diversified portfolios.

- Momentum continues toward a “soft Brexit”
  - A no-deal Brexit is a worst-case scenario where both economies are maximally disrupted from the withdrawal, any deal will help both the U.K. and European economies.

- Retail sales readings close the year above expectations
  - Indication that the U.S. consumer is healthy and optimistic about the economy, and the U.S. consumer is the backbone of U.S. GDP.

- Dollar Weakens
  - Commodities, international businesses, and U.S. exporters outperform.

**REASONS MARKETS COULD FALL**

- An acceleration of a trade war against countries other than China
  - With tensions easing with our Canadian, Mexican, and Chinese trade partners, potential increase in trade barriers with the U.K. or European Union could hurt the markets.

- U.S. companies with excessive valuations (i.e. FANMAG stocks) missing Wall Street’s high expectations
  - Given their lofty earnings expectations and their large market-capitalization, FANMAG stocks missing expectations will have an outsized impact on portfolios.

- U.S. consumer confidence levels declines
  - Given their large contribution to GDP, a decline in U.S. consumer confidence could indicate future U.S. slowdown.

- Global debt levels rise to unsustainable levels
  - If companies and governments are unable to service their debt, this could trigger global economic instability and a decrease in consumer confidence.

- The 2 year and 10 year bond yield curve inverts
  - This has been a historic indicator for the U.S. economy that a recession is imminent.
CLS's Weekly 3 for the week of Dec. 17, 2019, covers:

• The Difference a Year Makes
• Exuberance or Excess?
• U.K.: the Next Rising Star?

CLS's Weekly 3 for the week of Dec. 10, 2019 covers:

• To Outsource or Not to Outsource? That is the Question
• The Art and Science of Manager Due Diligence
• The Science and Politics of Fear

CLS's Weekly 3 for the week of Dec. 4, 2019 covers:

• You May be Taking More Portfolio Risk than You Think
• How Much to Invest in International Stocks
• Active Management’s Time to Shine

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.
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, telecom, 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.
Disclosure

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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 Morningstar Global ex US Large-Mid Index), rebalanced daily. The Morningstar US Market Index is an index that measures the performance of U.S. securities. It is a capitalization-weighted index. It is a capitalization-weighted index. The Morningstar Global ex US 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 U.S. 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. EBP 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 EBP Strategies or any member of the public regarding the advisability of investing in EBP Strategies generally or in the specific strategy presented here in particular or the ability of the EBP Strategies to track general market performance.

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The Fixed Income Baseline Portfolio is a blended benchmark comprised of 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 Markets, 10% Barclays Capital High Yield, 10% Barclays Capital TIPS, and 10% Barclays Capital Global Emerging Markets. The Treasury Bill is a short-term debt obligation backed by the U.S. government with a maturity of less than one year. Barclays Capital High Yield tracks performance of publicly issued U.S. dollar high yield corporate bonds with above average liquidity. Barclays Capital TIPS 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. The Barclays Capital Global Treasury Ex-U.S. Capped Index includes government bonds issued by sovereign countries outside the United States, in local currencies, that have a remaining maturity of one year or more and are rated investment grade. Barclays Capital Emerging Market Bonds tracks the fixed-rate local currency sovereign debt of emerging market countries.

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 $300 Million and $2 Billion. Mid Cap Investments typically invest in mid-sized companies whose market capitalization is between $2 Billion and $10 Billion. Large Cap Investments typically invest in larger companies whose market capitalization is over $10 Billion.

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 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. Emerging markets involve greater risk and potential reward than investing in more established markets. Risks for emerging market investing refer to tracking general market performance. You cannot invest directly in an index. EBP 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 EBP Strategies or any member of the public regarding the advisability of investing in EBP Strategies generally or in the specific strategy presented here in particular or the ability of the EBP Strategies to track general market performance.
Equity Sector Outlook
Relative valuations are determined by price-to-equity ratio, price-to-sales ratio, price-to-book ratio, price-to-dividend, and price-to-cash flow ratio. Historical data is tracked 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. 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, liquidity risk, credit risk, and interest rate 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 yields 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 policies 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. Treasury Securities 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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