MONTHLY MARKET REVIEW

APRIL 2016

In This Edition

- *CLS Update: How did the markets perform? How did CLS Do? What is CLS thinking? What are we doing?*
- *Role of a Chief Investment Officer: Four Ps, Three Hats, Two Assembly Lines, and One Mission*

CLS INVESTMENTS

Market Performance

Stock Market	LAST MONTH	YTD '16	12-MONTH
Total U.S. Market[1]	+0.62%	+1.59%	-0.18%
Domestic Large-Cap Equity[2]	+0.39%	+1.74%	+1.21%
Domestic Small-Cap Equity[3]	+1.57%	+0.03%	-5.94%
International Equity[4]	+2.63%	+2.25%	-11.28%
Developed International Equity[5]	+2.90%	-0.20%	-9.32%
Emerging Market Equity[6]	+0.54%	+6.29%	-17.87%
Fixed Income	**LAST MONTH**	**YTD '16**	**12-MONTH**
U.S. Bonds[7]	+0.38%	+3.34%	+2.72%
Cash Equivalent[8]	+0.02%	+0.08%	+0.10%

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

April Market Review

April was another positive month for the U.S. stock market, as well as the global financial markets. Despite pessimism early in the year, the S&P 500 (a proxy for U.S. large capitalization stocks) is now in its third longest stretch without a 20% decline since 1927. The U.S. economic expansion is in its fourth longest stretch since 1945.

In April, the U.S. stock market (Russell 3000) was up 1%, the international stock markets (MSCI ACWI ex-U.S.) were up over 4%, and the U.S. bond market also gained nearly 1%.

CLS Portfolios: Update

How Did CLS Perform?

CLS portfolios participated in April's gains and continue to have solid annual returns. So far, it's been a good year to be a global investor.

However, not everything worked in our favor last month. Our emphasis on the technology sector, for instance, was not rewarded as the last week of the month was not kind to large-cap tech names like Apple or Microsoft. Nonetheless, we continue to favor this sector for a combination of reasons. Another strong portfolio emphasis is on emerging markets (EM). While we still had gains in our positions and EM is having a great year, it did lag a bit last month.

One notable positive to portfolios was our exposure to the energy sector, which did provide a strong positive contribution as it continues to rebound from its losses last year.

What is CLS Currently Thinking and Doing in Portfolios?

Our Investment Themes are intact. First, we continue to favor and expand our use of "smart beta" exchange traded funds (ETFs). These ETFs, which essentially capture the essence of active management styles (but at a fraction of the cost), such as investing in high-quality, or value stocks, continue to provide a strong backbone to our portfolios. They have added value this year, particularly during periods of market weakness.

Secondly, we continue to focus on international opportunities, where we are putting a much stronger than usual emphasis on non-U.S. stocks. We not only have strong valuation support for this theme, but also momentum on our side.

Lastly, creative diversification remains firmly in place. This theme stresses the role of active management of our fixed income exposures (i.e., trying to add value above and beyond a benchmark). This year's best examples of how CLS has leveraged this theme include buying of high-yield bonds, and continual building of our Treasury Inflation Protected Securities (TIPS) positions. Both of these moves have added value.

What Does a CIO Do?

I often get asked what a Chief Investment Officer (CIO) does. In short, one answer that seems to work in many parts of the country (including here in Nebraska) is that a CIO is a lot like a football coach. The CIO is accountable for the team, how it's managed, and how it ultimately performs. That said, a team doesn't just depend on one person – it takes a lot of talented people working for the same purpose to make a

Rusty Vanneman, CFA, CMT
Chief Investment Officer

*Rusty Vanneman joined CLS in September 2012 as Chief Investment Officer. Previously, Mr. Vanneman was Chief Investment Officer and Portfolio Manager at Kobren Insight Management (KIM) in the greater Boston area. His 11-year tenure at KIM included a 5-year span during which the firm was owned by E*TRADE Financial. During this time, Mr. Vanneman was the Senior Market Strategist for E*TRADE Capital. Prior to working at KIM, he was a Senior Analyst at Fidelity Management and Research (FMR Co) in Boston. He was also a Managing Analyst at Thomson Financial.*

Mr. Vanneman received a Bachelor of Science in Management from Babson College, where he graduated with high distinction. He holds the Chartered Financial Analyst (CFA) designation and is a member of the CFA Institute. He is also a Chartered Market Technician (CMT) and a member of the Market Technician's Association (MTA).

winning team. At CLS, I'm lucky to have a great one.

Expanding on what a CIO does, I often say I'm responsible for "four Ps," wear three hats, I manage two production lines, and have one mission.

Four Ps

For many years, I worked in Boston. I was either on, or managing, high-performing teams building portfolios of mutual funds. To do my job, I interviewed Portfolio Managers across the country and who managed every asset class, conducting well over 2,000 interviews. Our task was to identify managers and funds that we could confidently use for our clients and shareholders. After doing our due diligence, did we trust the managers? Respect them? Like them? In that order actually – and we didn't have to necessarily "like" managers if we thought they were good, but we did need to have a working relationship with them. To do this, we needed to find out about their "four Ps" (actually, I had up to ten Ps, but there are four major ones).

1. People
    - How does the portfolio management team make decisions?
    - Does the team have good chemistry?
    - Do they have adequate resources?
    - What are their credentials?
    - How accessible are they?
    - Are they disciplined? Competitive? Passionate about the markets?

2. Philosophy
    - What do they believe about the markets and investing?
    - What do they believe about managing money?
    - What do they believe is their ultimate goal?

3. Process
    - How do they build portfolios?
    - How do they select securities?
    - How do they manage risk?
    - How do they effectively communicate?
    - In the end, what's their "edge" to perform and to help investors succeed?

4. Performance
    - How will they perform in different market environments? We should never be surprised by performance. There will be environments, of course, where their style of investing is temporarily out of favor.
    - What are their performance incentives? Are they incented to beat their benchmarks or their peers, and over what time frames?
    - Do they eat their own cooking by investing in their own funds?
    - For taxable strategies, do they manage their portfolios with any tax awareness?

Each of these Ps should be answered by the person selecting an advisor. Ultimately, it's about understanding and being comfortable about how a portfolio or strategy should behave over time (recognizing, of course, that no strategy works all the time). Again, no surprises.

Stay tuned to the CLS Blog at http://www.clsinvest.com/blog for the answers to each of these questions as they relate to CLS.

Three Hats

Over the years, I've often said that I wear three different hats as a CIO. At many firms, the CIO's hats may not necessarily be all the same shape or color.

The first hat is that of an investment portfolio manager. My job is to produce a rate of return. That's a simplification, of course, but it's really the function of maximizing a rate of return (after-tax return for taxable investors) for a level of risk.

The second hat is that of an investment counselor. This is arguably the most important hat to wear. The ultimate job of what my team is doing and what all investment advisors are doing, is helping investors reach their financial goals. This often means helping investors close the "behavior gap" or preventing the investor from doing the single worst thing they could do – chase performance. More than any other factor, performance chasing (buying stuff after it's already gone up and selling stuff after it's already gone down) hurts investors. It's my team's responsibility to communicate and help counsel investors.

My third hat is that of an investment firm manager. This position means running or helping run an organization that will ultimately succeed over time. This includes keeping various shareholders and stakeholders satisfied.

As an investment manager, I think there are many ways to succeed, as long as one has a disciplined process. For instance, one could be a value investor, or a growth investor or a momentum investor or a technically-oriented investor. That said, I believe that value orientation offers the best chance to be a successful investment manager. To produce solid returns, one needs to buy securities on sale. Nearly all the great investors were value oriented.

As an investment counselor, I also believe the best approach is to have a value approach. If counselors are counseling investors to not buy investments after they have already run up in price, or not sell investments after they have gone down in price, that is strongly correlated to value investing. Counselors are also encouraging investors to stay on track with their plan and stay balanced by regularly rebalancing portfolios. Rebalancing is selling investments after they have gone up and buying those that have gone down. Again, strongly related to value investing.

Investment management firms, however, at least in the short term, usually do not have value orientations. They like to sell what's hot! If it's running higher in price, it's an easier story for many to tell. As a result, performance chasing by investors is often caused by the investment firms looking to promote their hot products. This is NOT value investing.

A firm with a mission and a longer-term orientation, can have a value orientation. It can build disciplined portfolios that won't bend their philosophy or process when times get temporarily difficult and it can provide valuable communication, education, and counseling to support it.

Two Assembly Lines

I manage two assembly lines. It's very important that they have steady, efficient production and quality control to support that production.

The first assembly line is that of manufacturing the rate of return. This is the behind the scenes stuff – the technical nuts and bolts of an investment process – that manufactures returns. I have to make sure that production is efficient, ensure adequate resources, and identify bottlenecks. I also need to build redundancies and ensure that the output is of the highest quality possible.

The second assembly line is that of manufacturing the stories, narratives, and education that support the portfolios and investment counseling function. Again, I have to worry about efficient production and quality control. Regarding quality control, if our communications are unclear or have mistakes, what message does that send to investors? As an old mentor told me once, "If we can't be trusted with the words, can we be trusted with the numbers?"

One Mission

All of this work comes down to one thing – empowering advisors to help investors reach their financial goals. This is what it's all about and why my team and I are always striving to improve every day. All of us realize that we have a calling, and that our efforts make a difference. Every additional dollar we can scratch out for investors, and every time we can help an investor stay the course and stay balanced, is why we're here.

Thanks for reading. Stay balanced.

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 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 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 EAFE International 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 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 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 Equity Baseline Portfolio (EBP) is a blended index comprised of 60% domestic equity (represented by the Russell 3000 Index) and 40% international equity (represented by the MSCI ACWI ex US Index), rebalanced daily. 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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