WEEKLY MARKET REVIEW

FEBRUARY 7, 2017

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CLS INVESTMENTS

Market Performance

Equities	LAST WEEK	QTD	YTD '17
Total U.S. Market[1]	+0.24%	+2.80%	+2.80%
Domestic Large-Cap Equity[2]	+0.16%	+2.76%	+2.76%
Domestic Small-Cap Equity[3]	+0.54%	+1.59%	+1.59%
International Equity[4]	+0.11%	+4.26%	+4.26%
Developed International Equity[5]	+0.03%	+3.48%	+3.48%
Emerging Market Equity[6]	+0.33%	+6.60%	+6.60%
Fixed Income	**LAST WEEK**	**QTD**	**YTD '17**
U.S. Investment Grade Bonds[7]	-0.04%	+0.02%	+0.02%
Cash Equivalent[8]	+0.01%	+0.05%	+0.05%
Commodities	**LAST WEEK**	**QTD**	**YTD '17**
Commodity[9]	-0.03%	+0.54%	+0.54%

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

As of 2/3/2017

Week in Review

First off, the New England Patriots made an amazing 25 point comeback to beat the Atlanta Falcons in overtime and became the Super Bowl champs Sunday night. Unfortunately though, the commercials this year were lackluster at best.

In terms of performance, most equity markets posted slight to moderate gains over the last week, adding to positive returns so far this year. Health care, which is the most undervalued sector, led the way for the first time in a while. Bonds posted a slightly negative return and are about flat on the year. Emerging markets are still year-to-date performance leaders.

Earnings reports (55% of S&P 500 companies have reported) reflect 4.6% growth for the fourth quarter. This could be the first positive earnings quarter in a couple of years. The most notable report came from Apple (AAPL), which surprised markets with an earnings beat and shot up 6% for the week.

Elsewhere, a fairly uneventful Federal Reserve (Fed) meeting resulted in a unanimous vote not to raise rates. The Fed still forecasts three hikes for 2017, which would mean a hike in June at the latest, which has about a 50% implied probability at this point. On the economic front, non-farm payroll numbers came in at 227,000, which surpassed a Bloomberg consensus estimate of 180,000. Unfortunately, the report was mixed as wage growth was weaker than expected and unemployment ticked up slightly.

Lastly, President Donald Trump signed a number of executive orders aimed at financial regulations, specifically targeting the Dodd-Frank Act and fiduciary rule, introducing more political market noise.

Why Invest Internationally?

The broad international has underperformed the U.S. market since the 2008 financial crisis, and this has left many investors shying away from the asset class. This is a natural behavior based on the emotional drive to chase performance. But, it is important to resist such emotions, and utilize more scientific methods to evaluate future asset allocation and the attractiveness of specific asset classes. The best way to prevent unintended emotional responses is to stick to a more consistent and disciplined investment philosophy and methodology as this leads to better investor experiences.

So, what makes international markets a viable investment? This can be deconstructed into two different questions: 1) Why invest internationally *now*? And 2) Why hold a strategic international allocation at *all times*?

Why Now?

The first and most important reason to invest in international is relative valuations. As mentioned, since the financial crisis in 2008, U.S. equities have outperformed international equities by a wide margin and continue to hit all-time highs. As a result, the U.S. market is trading at historically high relative valuations (trading at a premium) as compared to most international markets, which are trading at a discount. If you are a bargain shopper like me, you go for stuff on sale.

Second, there are diverging monetary policies. Part of the reason for the recent market run in the U.S. is the country's accommodative monetary policies. However, the U.S. economy is nearing full recovery and is poised to tighten policy, while many international markets, such as Europe, are at the start of their economic recovery and are beginning to implement loose policy, which may result in a similar market advancement in the years to come.

Lastly, international companies tend to not only pay higher dividends, but also grow dividends faster. International yielders will further benefit from falling rates in their respective countries, while U.S. yielders may face headwinds in a rising interest rate environment.

Why Always?

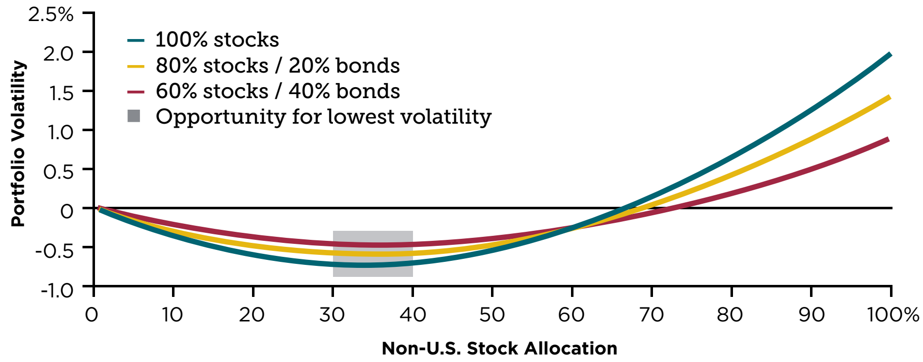
First, it's a big, wide world out there, and it's always growing. The U.S. market accounts for only about half of the world's market capitalization. This means that investors in a global allocation based on market capitalization (same methodology used for the S&P 500), would have an international

Kostya Etus, CFA
Portfolio Manager

Konstantin "Kostya" Etus began his career at CLS in 2011 as a Trading Specialist and became Research/Portfolio Analyst in early 2013. Later, he was promoted to Portfolio Manager. Mr. Etus is currently a co-manager on two mutual funds and lead manager on various separate account strategies.

Prior to working at CLS, Mr. Etus worked as an Associate Financial Analyst at ConAgra Foods, Inc., managing the company's global cash network. He graduated from the University of Nebraska at Omaha with a Bachelor of Science in Business Administration, and obtained Master's degrees from Creighton University in Investment Management and Financial Analysis, as well as Business Administration. He holds the Series 65 securities registration and the Chartered Financial Analyst (CFA) designation.

Average Annualized Change in Portfolio Volatility when Adding Non-U.S. Stocks to a U.S. Portfolio



Source: Vanguard: "Global Equities: Balancing Home Bias and Diversification"

Notes: U.S. equities represented by MSCI USA Index; non-U.S. equities represented by MSCI World Index ex USA from 1970 through 1987 and MSCI All Country World Index ex USA thereafter. Bond data represented by Salomon High Grade Index from 1970 through 1972, Lehman Long-Term AA Corporate Index from 1973 through 1975, and Barclays U.S. Aggregate Bond Index thereafter. Data through December 31, 2013

allocation of about 50%. Along the same lines, the U.S. economy only makes up about a fourth of the global GDP. If investing based on shares of global GDP, an allocation to international would be about 75%. Much of global growth potential can be missed if investors are not invested on a global scale.

Second, an international allocation provides a diversification benefit. How much is the "ideal" or "sweet spot" allocation to international? The answer may lie in this question: At what level is historic volatility minimized? Per the chart above, portfolio volatility is lowest between the 30-40% allocation levels of international stock to a U.S. portfolio. Interesting to note, volatility is still below an all-U.S. portfolio up to about a 70% allocation to international.

Lastly, correlations and return dispersions are significant benefits to international investing. But, these are not international-only phenomena. Most markets are cyclical in nature, and no single market can continue to be the performance leader indefinitely. Allocating to various asset classes that are uncorrelated (don't move in the same direction) and have wider return dispersions (differences in returns from year to year) can help lessen the impact of large, single-market downturns, and will result in smoother returns over time, thus creating better investor experiences.

There are many other reasons to invest internationally, which can be found in CLS's "Why International" white paper, or the condensed one-pager titled, "15 Reasons to Invest Internationally."

Five Areas of Analysis and the CLS Score

At CLS, we believe Risk-Budgeted, global, balanced ETF portfolios help investors succeed over time. While every descriptor in that sentence is important, "Risk Budgeted" stands out as the core of our investment methodology. We are first and foremost strategic risk managers, but we are also active asset allocators. We make asset allocation decisions in our portfolios based on investment themes and along various investment continuums.

To help select and evaluate themes, as well as placement decisions along continuums, we utilize five areas of analysis:

- economic
- fundamental
- statistical
- technical
- valuation

A detailed explanation of each can be found in our main methodology document titled, "CLS Risk Budgeting Methodology." We have combined these five areas of analysis to develop a complement to the Risk Budget Score, our proprietary "CLS Score." While a Risk Budget is a measure of risk, a CLS Score is a measure of expected return. We calculate and assign CLS Scores for all ETFs, and use them as tools to help with asset allocation and security selection (they help differentiate similar ETFs). The CLS Score is calculated in a building-block type structure based on the following methodology.

CLS Scores for Broad Asset Classes

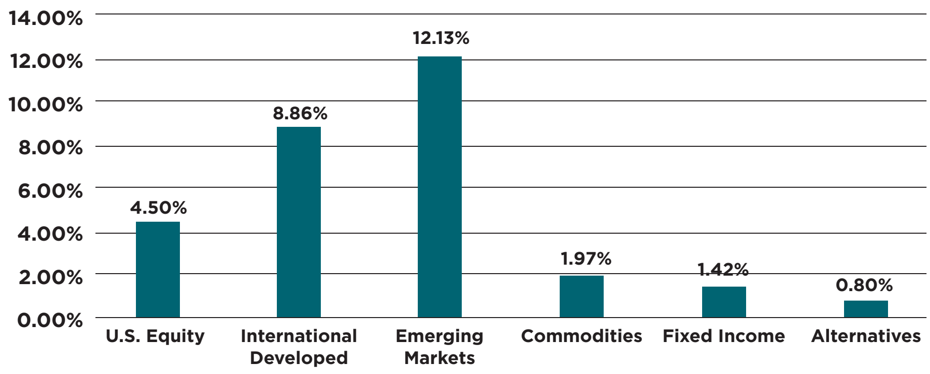


Chart Source: Morningstar, Bloomberg, Ned Davis Research, Research Affiliates, and MSCI, as of 11/30/2016

Part I: Broad Market Estimate (Equity Risk Premium/Capital Market Assumptions)
We use economic and fundamental statistics to forecast returns for the overall market as a general starting point of return forecasts.

Part II: Valuation Adjustment
We use relative valuation data to estimate a return for an individual security.

Part III: Risk Change Adjustment
We adjust expected returns based on significant changes in risk over intermediate time periods.

Part IV: Quality Adjustment
We reward the highest quality companies with higher expected returns.

Part V: Technical Overlay
We incorporate some of CLS's most widely used technical indicators to create trigger points to increase or decrease the expected return.

Part VI: Cost Reduction
Lastly, we make an adjustment for the various costs of the ETF, including the expense ratio and trading cost.

The chart above shows our calculated CLS Scores for common broad asset classes. This shows another reason to invest internationally now, as expected returns are more than double those of the U.S. market, particularly in emerging markets, which include countries such as Brazil, Russia, India, and China.

The introduction of CLS Scores is an example of how CLS strives for continuous improvement in our process and methodology to always bring our best and brightest ideas forward to benefit our clients.

Yet Another ETF Benefit

The most well-known benefits of ETFs include:

- Lower cost
- Tax efficiency
- Diversification
- Stable market and risk exposure
- Transparency
- Intra-day trading

But, there are a few that sometimes get overlooked, for example, ETFs offer unique investment options.

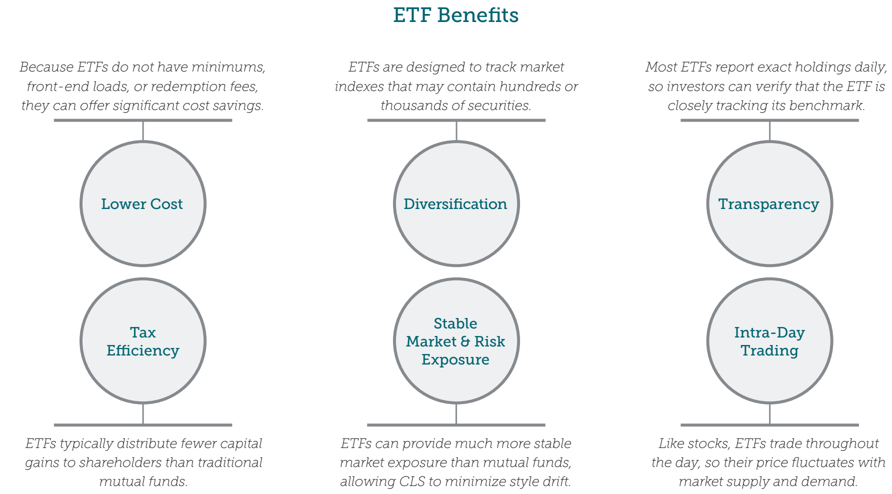
If an investor buys individual stocks, it would be quite difficult to purchase international stocks because he or she may require overseas brokerage accounts, access to foreign currencies, representatives in certain countries to trade on his or her behalf, among many other complexities. Meanwhile, if an investor buys mutual funds, he or she is most likely limited to an active manager's discretion, as to where to invest internationally. Typically, the mutual fund exposure is quite broad and rarely gets more granular than a regional concentration.

But, now there are ETFs. An international ETF is just as easy to buy as a U.S. stock, maybe easier. And, ETFs can get as granular as individual country sectors. Access to Chinese technology? There is an ETF for that. Countries that are hard to access by foreign investors, such as Vietnam, Nigeria, and Saudi Arabia? There are ETFs for those. In fact, there are currently 48 individual countries that can be accessed by ETFs.

Additionally, ETF issuers continue to get more granular and innovative as they attempt to slice and dice the markets in more unique ways. A wave of "thematic" ETFs has been launched more recently focusing on exposures that go beyond traditional sector and industry classifications, including themes such as cybersecurity and drone technology. Such allocations offer exposures to newer technologies and cultures that may shape the future, and thus offer unique growth opportunities.

Ultimately, such unique exposures create a lot of opportunities for return drivers for mutual funds of ETFs, such as the AdvisorOne Funds that CLS manages.

There are so many benefits to ETFs, and more investors are starting to realize it. This has created huge growth in ETFs in recent years, as well as growth in assets (typically at the expense of mutual funds) and available ETF options (now at about 2,000). Many of these new ETFs tend to be more granular and thematic in nature, as ETF issuers strive for innovation and attempt to break up the markets in unique ways. The future expectation is for this trend in growth to continue, which will generate more opportunities for active managers, such as CLS.



[1]Graph was compiled using data from the Morningstar Direct Database. Morningstar provides figures for assets and annual report expense ratios for all ETFs and mutual funds domiciled in the US. With this information, a dollar-weighted average of expense ratios was calculated for both mutual funds and ETFs. The results are displayed in the graph.
[2]Graph was compiled using data from the Morningstar Direct Database. Morningstar provides figures for pre-tax and post-tax earnings for all ETFs and mutual funds domiciled in the US. With this information, a dollar-weighted average of tax expenses was calculated for both mutual funds and ETFs. The results are displayed in the graph. For information regarding how post-tax returns were calculated, refer to Morningstar directly.

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

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