CLS's WEEKLY 3

What You Need To Know About the Markets

APRIL 16, 2019

1. Greatness in the sports world can teach us a lesson about how great companies dominate the markets
2. Autonomous vehicle technology will reshape the way we get around
3. The unique characteristics of our Active Income X strategy have attracted a lot of attention from advisors

Market Performance (as of 4/12/2019)

Fixed Income	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent[1]	+0.41%	+0.74%	+1.20%	+2.13%	+0.68%	+0.09%	+0.05%
U.S. Investment Grade Bonds[2]	+3.74%	+2.50%	+1.83%	+4.30%	+2.52%	-0.41%	-0.12%
Equities	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Global Equity Market[3]	+11.67%	+7.39%	+11.67%	+3.86%	+14.95%	+2.55%	+0.47%
Total U.S. Market[4]	+15.50%	+11.84%	+14.54%	+10.94%	+17.22%	+2.74%	+0.60%
Domestic Large-Cap Equity[5]	+15.17%	+12.36%	+14.78%	+11.57%	+16.02%	+2.50%	+0.52%
Domestic Small-Cap Equity[6]	+15.47%	+8.74%	+12.94%	+5.01%	+19.44%	+3.41%	+0.44%
International Equity[7]	+8.67%	+3.35%	+9.20%	-3.07%	+12.87%	+2.41%	+0.33%
Developed International Equity[8]	+8.64%	+3.01%	+8.37%	-2.74%	+12.97%	+2.26%	+0.32%
Emerging Market Equity[9]	+8.82%	+4.40%	+12.11%	-4.10%	+12.55%	+2.86%	+0.37%
Diversifiers	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Diversified Alternatives[10]	+4.42%	+0.62%	+1.65%	+1.21%	+3.44%	+0.47%	+0.18%
Commodity[11]	-2.65%	-8.79%	+2.05%	-5.09%	+8.55%	+2.09%	+0.46%

[1]Morningstar Cash Index [2]Bloomberg Barclays Capital U.S. Aggregate Bond Index [3]Morningstar GblMkt Large-Mid Index [4]Morningstar U.S. Market Index [5]Morningstar U.S. Large Cap Index [6]Morningstar U.S. Small Cap Index [7]Morningstar Gbl xU.S. Large-Mid Index [8]Morningstar DM xUS Large-Mid Index [9]Morningstar EM Large-Mid Index [10]Morningstar Diversd Alt Index [11]Bloomberg Commodity Index

Week in Review

World markets were quiet last week in terms of volatility. Stocks ended higher and on a positive note after better-than-expected bank earnings kicked off the earnings season.

The Bloomberg Commodity Index was higher on the week. Bond yields, as measured by the Bloomberg U.S. Aggregate Bond Index, were mostly unchanged. However, the 10-year U.S Treasury yield ended the week about 7 basis points higher, at 2.57%.

Greatness

I had to do a quick rewrite of my intended commentary after watching Tiger Woods pull off one of the greatest feats in the history of sports on Sunday. For the record, I have golfed once in my entire life, and that was this year at the age of 54. So, why was I so glued to Tiger's return to the Masters?

The simple reason is that I admire greatness. I'm inspired by the ability for people who get knocked down, sometimes by their own doing and sometimes through circumstances they did not control, to rise again. Tiger Woods, who won the Masters for the fifth time on Sunday, triumphed after enduring four back surgeries to alleviate intense pain in his back and legs. He had hoped to be able to walk without pain, but instead he re-learned his swing and returned to his beloved sport as a champion.

I have always idolized people who are able to triumph over great odds and dominate in their greatness. In sports, I most admire Larry Bird and Tom Brady. And, mind you, I am a die-hard sports fan who lives, and has always lived, in New York.

A few months back, I wrote an article about dynasties. These are companies that dominate the markets and change the way everyone does business. Warren Buffet, Bill Gates, the late Steve Jobs, and Jeff Bezos fall into this category, too. They were game changers in their respective fields, and each overcame adversity somewhere along the line. I look at the Tiger Woods of the world the same way. Iconic.

It's not often that these people come along. There are many others, and each of us has our favorites. For me, I will always remember where I was when Tiger won again.

Marc Pfeffer

Chief Investment Strategist

Marc Pfeffer specializes in fixed income strategies. He is a Portfolio Manager on the CLS Flexible Income Fund team and manages the CLS Active Income X Strategy and CLS's ETF strategies. He also manages individual municipal bond portfolios for the CLS Master Manager Strategy and is a senior member of the CLS Investment Committee.

Mr. Pfeffer joined CLS in 2011, continuing as Senior Portfolio Manager for the Milestone Treasury Obligations Fund. The Fund was incorporated into CLS's fund family in January 2012. Mr. Pfeffer has more than 30 years of investment management experience, including time spent as the Chief Investment Officer at Milestone. He also worked previously at Goldman Sachs and Bear Stearns.

Mr. Pfeffer graduated from the State University of New York at Buffalo with a Bachelor of Science degree in finance. He received his Master of Business Administration degree, with a focus on finance, from Fordham University. Mr. Pfeffer holds his FINRA Series 7, 63, and 65 licenses.

Did you know? Marc is an avid poker player.

The Future is Here

By Joe Smith, CFA – Deputy Chief Investment Officer

My fiancé and I traveled to Pittsburgh this past weekend for her five-year MBA class reunion at Carnegie Mellon University. We are both alumni of the Tepper School of Business at CMU and enjoyed the opportunity to see former professors and classmates as well as receive updates on the latest research and projects being pursued on campus. One of those ongoing efforts is around robotics and its application in autonomous vehicles.

Pittsburgh, not Silicon Valley, is home to the some of the leading names in autonomous vehicle technology in the country. Companies such as Aurora, Argo, and Uber's Advanced Technology Group (ATG) are at the forefront of new technologies that aim to allow vehicles to become more autonomous and require less human intervention in everyday decisions on the road.

Autonomous vehicle technology has the potential to reshape the way we think about getting from point A to point B. Much of this technology isn't just about vehicles requiring less assistance from drivers. Rather, it's about improving safety on our roads. Safety in the autonomous vehicle world means using artificial intelligence (AI) to analyze a situation in real time and react with the right course of action. The primary objective of using AI, ultimately, is to reduce the number of traffic accidents and vehicle fatalities that occur on the road. What is most interesting to me is that this technology is getting closer to what industry experts refer to as Level Five – or full automation.

Lyft's recent initial public offering (IPO) and Uber's move to file for an IPO both represent opportunities for investors to take advantage of the potential of autonomous vehicle technology. Each firm has dedicated efforts to increase the use of self-driving cars for passenger ridesharing and pickup. I believe that as autonomous vehicle technology continues to get smarter, it will disrupt the entire transportation industry and prompt consumers to reimagine how they get around. Although it is too early to tell how companies like Lyft and Uber will work out in the long term for investors, I think the future of transportation is going to impact each of us sooner rather than later.

SAE Automation Levels

Full Automation

0	1	2	3	4	5
No Automation	**Driver Assistance**	**Partial Automation**	**Conditional Automation**	**High Automation**	**Full Automation**
Zero autonomy; the driver performs all driving tasks.	Vehicle is controlled by the driver, but some driving assist features may be included in the vehicle design.	Vehicle has combined automated functions, like acceleration and steering, but the driver must remain engaged with the driving task and monitor the environment at all times.	Driver is a necessity, but is not required to monitor the environment. The driver must be ready to take control of the vehicle at all times with notice.	The vehicle is capable of performing all driving functions under certain conditions. The driver may have the option to control the vehicle.	The vehicle is capable of performing all driving functions under all conditions. The driver may have the option to control the vehicle.

Source: "Automated Driving Systems: A Vision of Safety." U.S. Department of Transportation. NHTSA.gov.

Closed-End Funds Review

By Jackson Lee, CFA – Quantitative Associate Portfolio Manager

Since its launch a few years ago, the Active Income X (AIX) strategy has garnered a lot of interest from our advisors as its asset growth has been strong. For those who are not familiar with this strategy, its primary objective is to deliver a target yield between 3% and a maximum target percentage* (net of fees), while limiting the amount of risk required to achieve it. Like most strategies offered at CLS, AIX is actively managed and uses a broad mix of income-producing assets, including non-traditional assets, to build a diversified portfolio.

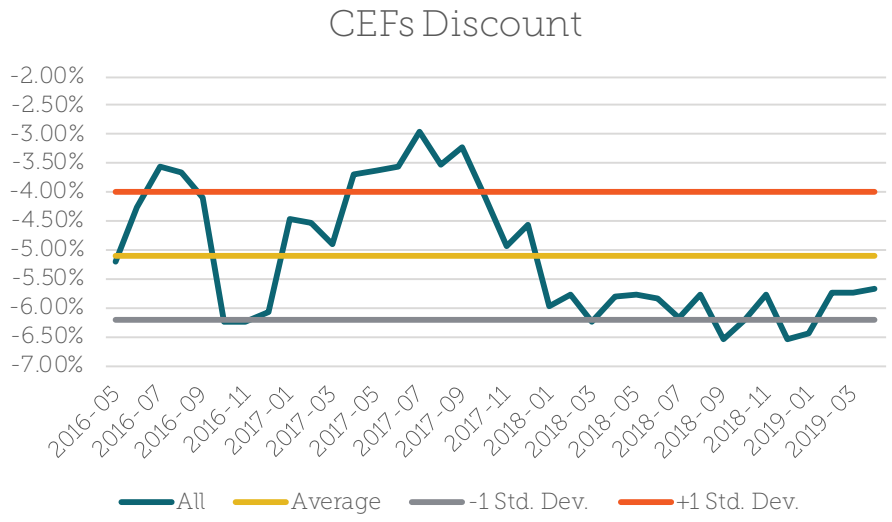
What makes AIX unique compared to other CLS strategies?

Perhaps one of the most unique characteristics of AIX is its heavy usage of closed-end funds (CEFs). Since the 2008 financial crisis, income investors have had difficulty finding sufficient yield from traditional sources to meet their income needs. CEFs typically provide a higher yield relative to other asset classes, so their inclusion in the strategy can serve as a value-add.

While a CEF is like an ETF in that it is traded intra-day on an exchange, a CEF has a fixed number of shares, which cause the share price of the fund to deviate from its net asset value (NAV) based on the supply and demand of investors. When the demand of the fund exceeds the supply available, the market price could potentially be higher than the NAV, meaning it is trading at a premium. The opposite is true when there is an excess of sellers. This causes the price to fall below the NAV and the fund to therefore trade at a discount. By purchasing CEFs that are trading at a discount and generating a steady stream of income, investors are effectively receiving a higher yield (income/price).

CEFs generally trade at a small discount during normal market conditions. However, at times of market distress, like what we saw in the first and fourth quarters of 2018, CEFs could trade at deep discounts, thus creating opportunities for active managers. In fact, at the end of 2018, the average discount across all CEFs was the deepest it has been in three years. Since then, the discount has compressed as the market rebounded during the first quarter of 2019. In fact, for the AIX max model, the discount's compression has contributed more than 2% of the first quarter's performance.

At CLS, continuous monitoring of the premium and discount levels in the CEF space is a crucial part of the due diligence process. We believe that this is important because not only can CEFs provide opportunities for discounts, but when sentiment is extremely optimistic, they could trade at premiums well above their historical averages. In addition, many CEFs use leverage to increase their investment exposures and generate extra return or higher income.



**CLS seeks the maximum yield, given current market conditions. Over the long term, CLS seeks a target yield of 6%.*

The Morningstar Global Market Large-Mid Index is an index that measures the performance of the global market's equity markets targeting the top 90% of stocks by market capitalization. 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. The Morningstar U.S. Large Cap Index is an index that measures the performance of U.S. large-cap stocks. These stocks represent the largest 70% capitalization of the investable universe. The Morningstar U.S. Small Cap Index is an index that measures the performance of U.S. small-cap stocks. These stocks fall between the 90th and 97th percentile in market capitalization of the investable universe. In aggregate, the Small Cap Index represents 7% of the investable universe. 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 Morningstar DM ex U.S. Large-Mid Index is an index that measures the performance of developed markets ex-U.S. equity markets targeting the top 90% of stocks by market capitalization. The Morningstar EM Large-Mid Index is an index that measures the performance of emerging markets targeting the top 90% of stocks by market capitalization. The Barclay's Capital U.S. Aggregate Bond® Index measures the performance of the total United States investment-grade bond market. The Morningstar Cash Index is an index that measures the performance of a Treasury Bill with six to eight weeks until maturity in the U.S. market. The Bloomberg Commodity Index is made up of exchange-traded futures on physical commodities and represents commodities that are weighted to account for economic significant and market liquidity. This index provides investors with a means of understanding the performance of commodity futures markets and serves as a benchmark for investment performance of commodities as an asset class. 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.

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