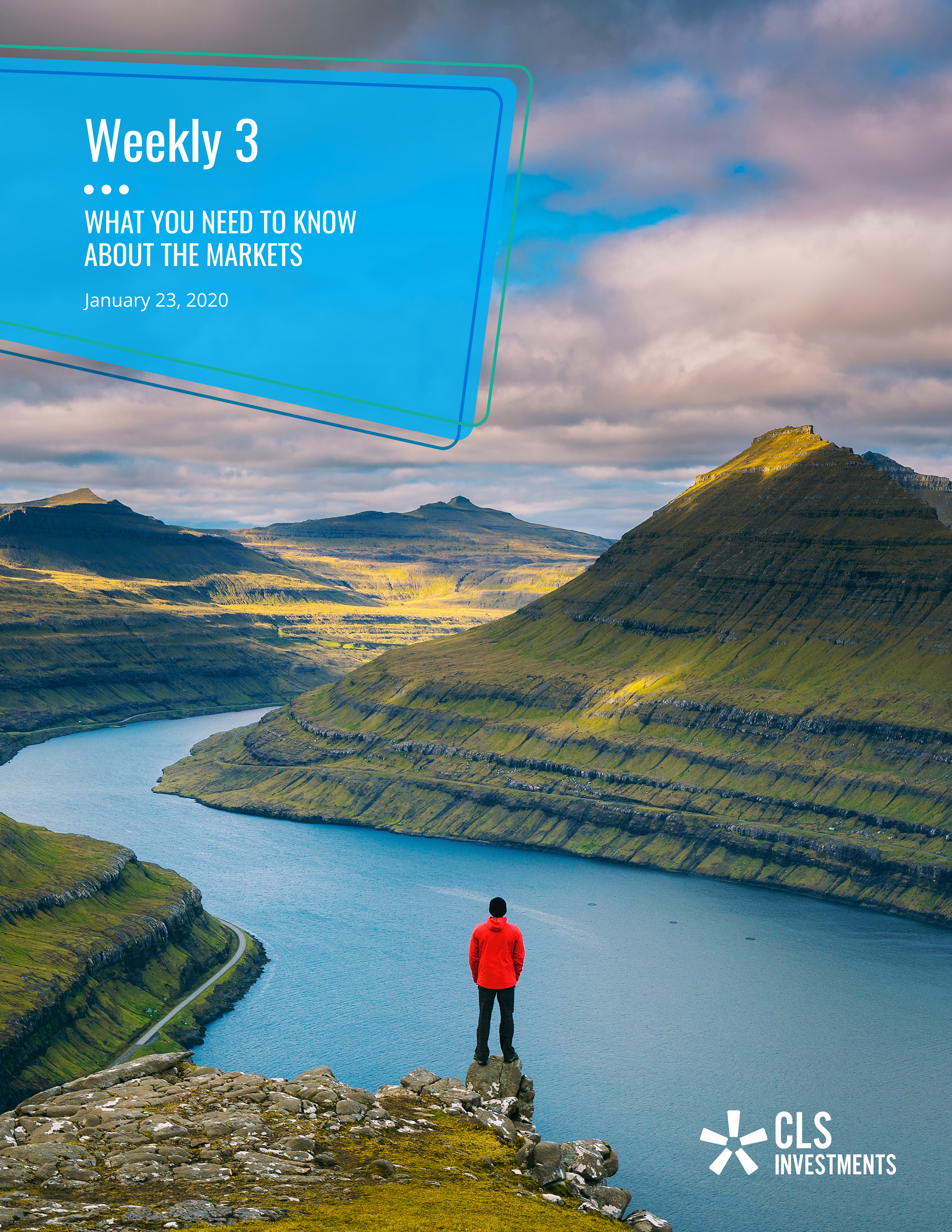
Weekly 3

WHAT YOU NEED TO KNOW ABOUT THE MARKETS

January 23, 2020



CLS INVESTMENTS

Week in Review

Global equity markets were generally higher last week amid positive economic data, strong U.S. bank earnings, and continued progress on trade issues. The U.S. market gained the most within equities, up just over 2%, led by small-caps and growth stocks. International markets were up 1%, with emerging markets outperforming developed.

Aggregate bonds were basically flat, similar to cash, as the 10-year Treasury yield ended the week about where it started. Broad commodities were the laggards on the week, down close to 1%, while other alternatives held up well.

Strong retail sales and a large uptick in housing starts highlighted the strength of consumers and the labor market. A "phase one" trade agreement between the U.S. and China was officially put in place, removing some uncertainty. Lastly, several large banks kicked off the earnings season, reporting strong financial results, which is generally considered a bellwether for market strength.

1 *We review the best performers in various asset categories in 2019 and make some predictions for 2020.*

2 *You have to be different to win. That is true in many aspects of life, including investing.*

3 *Active management generally outperforms passive over the long term, but investors can get even more bang for their buck in certain asset classes.*

Market Performance

as of 01/17/2019

FIXED INCOME	10-YEAR	5-YEAR	3-YEAR	1-YEAR	YTD	QTD	LAST WEEK
Cash Equivalent[1]	+0.55%	+1.05%	+1.64%	+2.13%	+0.08%	+0.08%	+0.03%
U.S. Investment Grade Bonds[2]	+3.67%	+2.87%	+3.97%	+9.19%	+0.50%	+0.50%	+0.06%
EQUITIES	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Global Equity Market[3]	+8.97%	+9.36%	+12.61%	+23.57%	+2.44%	+2.44%	+1.53%
Total U.S. Market[4]	+13.64%	+12.48%	+15.49%	+28.10%	+3.17%	+3.17%	+2.03%
Domestic Large-Cap Equity[5]	+13.74%	+13.22%	+16.75%	+29.73%	+3.37%	+3.37%	+1.95%
Domestic Small-Cap Equity[6]	+12.06%	+8.76%	+8.86%	+17.68%	+2.03%	+2.03%	+2.37%
International Equity[7]	+5.20%	+6.47%	+9.67%	+18.54%	+1.52%	+1.52%	+0.99%
Developed International Equity[8]	+5.43%	+6.38%	+9.09%	+18.95%	+1.05%	+1.05%	+0.90%
Emerging Market Equity[9]	+4.39%	+6.61%	+11.63%	+17.23%	+2.88%	+2.88%	+1.24%
DIVERSIFIERS	**10-YEAR**	**5-YEAR**	**3-YEAR**	**1-YEAR**	**YTD**	**QTD**	**LAST WEEK**
Diversified Alternatives[10]	+2.91%	+1.25%	+2.27%	+7.04%	+0.82%	+0.82%	+0.82%
Commodity[11]	-4.78%	-3.98%	-1.90%	+1.29%	-1.25%	-1.25%	-1.07%

[1]Morningstar Cash Index [2]Bloomberg Barclay's Capital U.S. Aggregate Bond Index [3]Morningstar Global Market 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 ex U.S. Large-Mid Index [8]Morningstar DM ex U.S. Large-Mid Index [9]Morningstar EM Large-Mid Index [10]Morningstar Diversified Alternatives Index [11]Bloomberg Commodity Index.

And the Award Goes To...

> If you ain't first, you're last."
> *-Ricky Bobby, Talladega Nights (2006)*

1

KOSTYA ETUS, CFA
Co-director of Research & Senior Portfolio Manager

Konstantin "Kostya" Etus specializes in international investments. He is a co-manager on two mutual funds (aggressive allocation and international) and manager on various separate account strategies, including Core Plus ETF and ESG. In addition, he manages 529 plans.

Mr. Etus began his career at CLS in 2011 as a Trading Specialist and became a Research/Portfolio Analyst in early 2013. In 2016, he was promoted to Portfolio Manager. 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 degree in Business Administration and obtained Master of Investment Management and Financial Analysis and Master of Business Administration degrees from Creighton University. He holds the Series 65 securities registration and the Chartered Financial Analyst® (CFA) designation.

Did you know? [Kostya grew up in Soviet Russia.]

As a movie lover, it's my favorite time of the year: award season. With the Oscars right around the corner, I thought I would do a ceremony of my own and hand out awards for the top performers of 2019 in various asset class categories. I'll also offer my predictions for 2020 based on CLS Scores, a proprietary expected return measurement. And the award goes to...

Best Region:

Emerging Market (EM) Europe (+33%)

Countries within EM Europe (including Russia and Greece) had some of the most attractive valuations coming into 2019 and took advantage of the risk-on environment as the markets rebounded after a tough fourth quarter in 2018.

Runners Up:

North America (+31%) / Europe ex. U.K. (+25%)

2020 Forecast:

Latin America

Most countries within the region are attractively valued and may be beneficiaries in a period of growing commodity prices, resurgence of global economic growth, and progress on geopolitical issues.

Best Country:

Russia (+51%)

The Russian market was driven by many factors, including four rate cuts from its central bank, reduced fear of sanctions from the U.S. and EU, a rebound in oil prices, and an increase in dividend yields to around 7% (relative to broad EM at 3% and the S&P 500 at 2%) – quite attractive in a low-interest-rate environment. Despite the outperformance, Russia remains attractive from a valuation standpoint.

Runners Up:

Greece (+43%) / Egypt (+42%)

It is interesting to note that, despite a strong year, the U.S. was only the ninth best performing country at +31%.

2020 Forecast:

Mexico

One of the most undervalued countries in the world, Mexico had a relatively weak 2019 due to various geopolitical concerns, but we believe it may rebound as some of those risks subside.

And the Award Goes To… (cont.)

1

Best U.S. Factor:

Quality (+39%)

Higher-quality companies (higher profitability and lower debt) were rewarded in 2019 due to high investor demand. The demand was driven by bullish investors who wanted a more defensive participation in the markets given the many geopolitical concerns over the year. This has resulted in the quality factor being one of the most overvalued investments today.

Runners Up:

Momentum (+28%) / Minimum Volatility (+28%)

2020 Forecast:

Value

Given that most other factors are trading at rich valuations and there is potential for a strengthening economy, we believe a market rotation from high-flying growth stocks into value stocks may come sooner than later.

Best U.S. Style Box:

Mid-cap Growth (+36%)

One of the biggest surprise upsets of the year is that large-cap growth did not win in the Style Box category. The risk-on environment present for most of 2019 drove smaller mid-cap growth companies to new highs, outpacing their larger-cap brethren.

Runners Up:

Large-cap Growth (+34%) / Large-cap Core (+33%)

2020 Forecast:

Small-cap Value

We believe this is the sweet spot in the Style Box as both small-caps and value stocks trade at cheap valuations and pair well together.

Best U.S. Sector:

Technology (+48%)

The technology sector posted its best gains since 2009, driven primarily by rapid growth from Apple and Microsoft due to strong demand for new iPhones and cloud computing. Together, they represent a large portion of the sector (close to 40%).

Runners Up:

Communication Services (+31%) / Financials (+31%)

2020 Forecast:

Energy

Share prices of energy companies have not kept up with oil prices or corporate earnings due to negative sentiment. We believe it's just a matter of time before the rebound.

And the Award Goes To... (cont.)

1

Best U.S. Industry:

Technology Hardware and Equipment (+63%)

Technology hardware includes companies such as Apple Inc (+88%). Semiconductors include companies such as NVIDIA (+77%), and software includes companies such as Microsoft (+57%). But not all of the best performers were technology companies; banks such as Citigroup (+57%) performed quite well, too.

Runners Up:

Semiconductors and Equipment (+51%) / Software and Services (+43%)

Honorable Mention:

Banks (+41%)

2020 Forecast:

Oil and Gas Exploration and Production

We believe there is deep value to be had in this industry as it is a higher-beta play within the energy sector, making the upside potential that much more attractive.

Playing to Win Instead of Playing to Not Lose

2

It takes courage to be different.

While the phrase above may be hackneyed, this popular adage is, nonetheless, true. Hitting my pop culture reference quota for the week, we need only look to the Golden Globes for examples. As the number of quality films increases, it takes an extra edge to truly stand out. Recycling familiar genres and tropes will not bring home the hardware – looking at you Irishman. The winner of the Golden Globe for "Best Picture" – 1917 – knew this truth. Instead of making just another war movie, the filmmakers utilized a unique film technique that gives the impression that the movie was shot in one continuous take. Deviation from the norm does not always work – Adam Sandler's attempt to take home a statue in Uncut Gems resulted in zero nominations. By its very nature, being different is dissimilarity. It is the execution of that deviation that determines if this distinction is a net positive or negative.

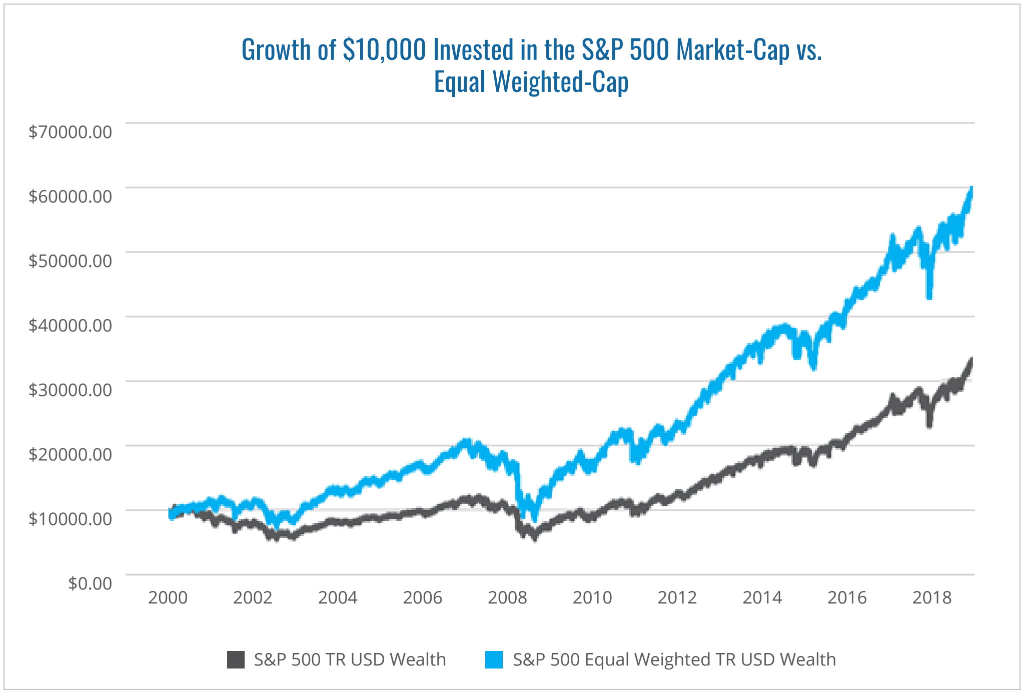
The ETF realm is in a similar situation to the film world. Assets invested into ETFs reached $4.4 trillion through the end of 2019, and about one-third of those assets were invested in 2019. 74% of all ETF assets are invested in market-cap-weighted ETFs. Market-cap indexes, constituent securities' representations based on their total value of shares outstanding, tilt to large, more overvalued, companies. Hoping to replicate the benchmark, they are vanilla, and after management fees, they tend to underperform the benchmark. These two tidbits paint a picture of the ETF industry where the investor: 1) agrees to be unremarkable and go home with a participation trophy and 2) prefers large companies.

Using smart beta ETFs, which are weighted by anything other than market-cap, with the same benchmark, can help mitigate this risk. For example, a simple equal-weight scheme allows investors to have the same market exposure without the size bias. As seen in the chart below, an equal-weighted S&P 500 portfolio has outperformed its market-cap counterpart. Smart beta ETFs may also benefit fixed-income investors. In a market-cap-weighted bond index, companies that issue more debt have a higher representation. The savvy investor has already concluded that is a suboptimal method of fixed-income investing. An active bond ETF can deviate from the benchmark and trade bonds before the passive funds, which tend to rebalance at month-end.

NICK CODOLA
Junior Investment Research Analyst

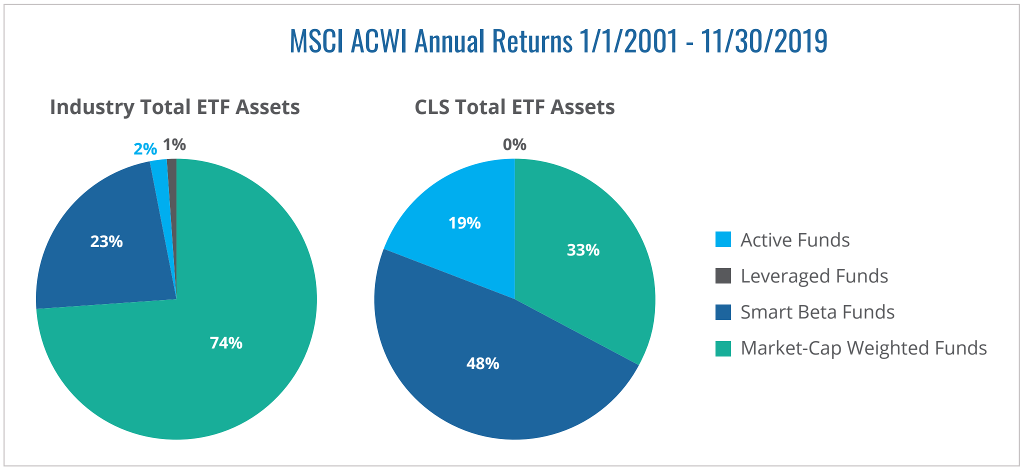
Playing to Win Instead of Playing to Not Lose (cont.)

2



Source: Morningstar, data from 01/01/2000 to 01/16/2020

At CLS, we recognize that being different is necessary if we wish to continue to provide outperformance to our clients and help them attain their financial goals. As seen in the CLS Reference Guide, we deviate from industry averages and invest in more active, smart beta ETFs while investing in fewer market-cap-weighted funds. We do not want to be "just another…" We strive to be exceptional and enable our clients to win.



Source: Bloomberg as of 11/30/2019

New Year's Resolution: Be More Active

3

> Turn on the camera. Josh Burnbalm step on up. Get on the scale. All right... GET OFF THE SCALE! Turn off the camera."
>
> *-Tony Perkis, Heavyweights (1995)*

It's the start of a new year and time to make some changes in our lives, hopefully for the better. That doesn't just mean revisiting the gym or the healthy food section of the grocery store. How about reviewing our investment portfolios?

CLS clients know it's important to understand our investment philosophy so they know what to expect from their investment portfolio. Portfolios that behave as expected are far more likely to keep investors invested and on track to reaching their long-term financial goals.

One element of CLS's investment philosophy is being active. As you can see from the pie charts in the previous section of this Weekly 3, CLS is very differently positioned relative to industry averages. Particularly, CLS has 19% allocated to actively managed ETFs. That's almost 10 times more than the industry average of 2%!

Why does CLS do this?

Picking the right active manager can result in more significant outperformance, but as you can see in the chart below, actively managed funds have, on average, outperformed passive ones over the last 20 years, despite having higher fees. It is important to note that the last 20 years included two business cycles (two bear markets and two bull markets), implying that, when evaluating long-term returns, active management has rewarded investors in various environments.

Additionally, the chart shows that active management tends to work better in certain asset classes. Active management has only slight outperformance in the U.S. large-cap blend space, a very liquid area, which is easy to access by all investors and is well covered by Wall Street analysts. It is hard for an active manager to add value in an asset class with such easy access and ample information readily available from countless sources (for example – the internet).

But as we get into less-liquid and less-followed markets, such as small-caps, international developed countries (such as U.K. and Japan), emerging markets (such as China and Russia), and bonds, we find that active managers can add quite a bit more value in terms of outperformance (also known as alpha).

New Year's Resolution: Be More Active (cont.)

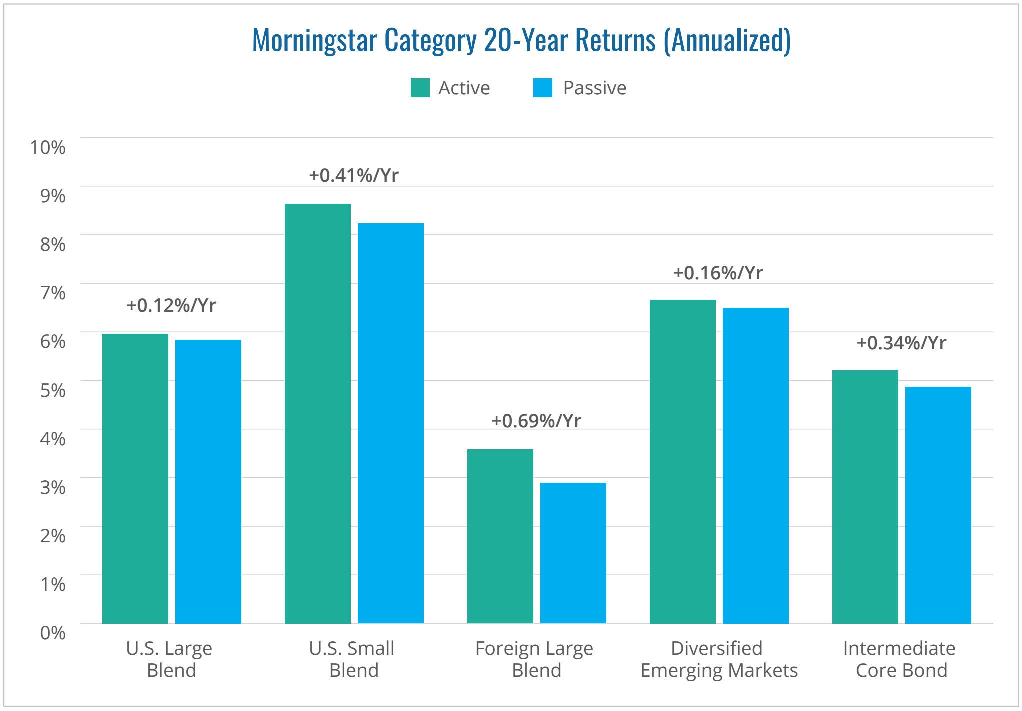
3

Often, active managers will specialize in one asset class and prove their expertise through long-term outperformance over passive investments. For example, bond managers tend to be unique in understanding how and where to get the best prices for bonds through key relationships and sifting through new bond issuances to find the best values. It would be very hard for an unspecialized investor to go through this much rigor, and a passive investment vehicle would simply track the entire market, regardless of how mispriced it may be.

Similarly, understanding the business models of smaller companies, whether domestic or abroad, requires deeper digging into company financials and meeting with company management. Additionally, smaller companies are more likely to go out of business and thus present significantly more risk of bankruptcy (your investment going to zero). One benefit of active over passive is the ability for active managers to be selective in the companies they choose and attempt to avoid companies with higher bankruptcy risk.

At CLS, we love being active, both in our asset allocations and security selections. We attempt to focus on active management within more complex markets to boost our alpha generation. Additionally, we do thorough due diligence to make sure we are selecting strong managers for any particular asset category.

So far this year, we're staying true to our New Year's resolutions at CLS. We'll see how well we do hitting the gym.



Source: Morningstar as of 12/31/2019

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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 Morningstar Diversified Alternatives Index allocates among a comprehensive set of alternative underlying ETFs that employ alternative and non-traditional strategies such as long/short, market neutral, managed futures, hedge fund replication, private equity, infrastructure or inflation-related investments. 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 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 index of 500 large-capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. 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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