



## Focused Solutions

Strategies intended to be used within a portfolio as satellite allocations for investors seeking to target specific assets and investment objectives, such as real assets, alternatives, inflation protection, and capital preservation.

# Completing a Comprehensive and Balanced Portfolio.



CLS Focused strategies employ an active allocation approach using exchange traded funds (ETFs) or a combination of ETFs and closed-end funds (CEFs) to target specific investment objectives or themes. Some Focused portfolios have a broader mix of assets, while others are designed to maximize opportunity within a very narrow investment objective or segment of the financial market. CLS's Focused strategies give you important, targeted access to areas of the market – such as alternatives and hedging strategies – that may not be accessible through your portfolio's more widely diversified core holdings. The strategies are intended to help grow your portfolio, generate income, or preserve capital, and are designed to be a satellite allocation to your diversified portfolio.

CLS actively adjusts your portfolio to seek exposure to attractive areas of the market, as well as to account for valuation, fundamental, technical, statistical, and economic factors.

CLS includes 5 to 12 ETFs, or a combination of ETFs and CEFs, in each Focused portfolio, which is inherently diversified based on the nature of the ETF structure. Yet, the limited number of ETFs some of these tactical strategies use means that allocations may be more concentrated than in broadly diversified portfolios. This may lead to a wider range of performance over time.

CLS's extensive risk management experience means we seek to find the right balance between lower- and higher-risk investments in your Focused portfolio in an attempt to meet the strategy's objective, while avoiding overexposure to investment risk.

## Active Portfolio Management

CLS actively manages your portfolio, meaning our team of portfolio managers analyzes potential investments and watches your portfolio for opportunities on a daily basis. We conduct significant research and rely on a proprietary risk calculation to measure the risk of each asset we track in order to make informed decisions about which assets to buy, hold, and sell.

## A Global Philosophy



CLS's philosophy of pursuing global diversification in most of our Focused portfolios

means that the CLS Portfolio Management Team can look in many areas of the world for investments that offer an optimal balance of risk and return. This flexible investment approach gives us the best opportunity to adapt your portfolio when markets change, as certain investments are likely to perform well even when others are not. The broader our investment universe, the more places we can look for opportunity.

CLS began using ETFs in the late 1990s and we are now one of the largest active money managers of this versatile investment vehicle<sup>1</sup>.

Since they were launched in 1993, ETFs have gained tremendous popularity. There are now more than 2,000 ETFs available, representing over \$3.4 trillion in assets. CLS Focused strategies primarily invest in ETFs due to their liquidity and global exposure, among many other benefits:

Most ETFs report exact holdings daily, so investors can verify that the ETF is closely tracking its benchmark.

### Transparency

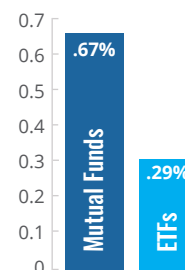
Like stocks, ETFs trade throughout the day, so their price fluctuates with market supply and demand.

### Intra-Day Trading

Because ETFs do not have minimums, front-end loads, or redemption fees, they can offer significant cost savings.

### Lower Cost

#### Average Expense Ratios: Mutual Funds vs. ETFs<sup>2</sup>



### Diversification

ETFs are designed to track market indexes that may contain hundreds or thousands of securities.

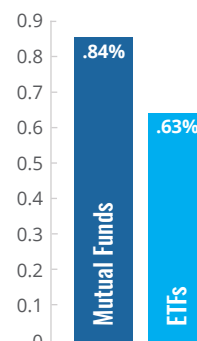
### Stable Market & Risk Exposure

ETFs can provide much more stable market exposure than mutual funds, allowing CLS to minimize style drift.

### Tax Efficiency

ETFs typically distribute fewer capital gains to shareholders than traditional mutual funds.

#### Average Tax Cost: Mutual Funds vs. ETFs<sup>3</sup>



CLS uses ETFs, CEFs, and active allocation to build portfolios optimized for your risk/return goals. To keep you on a clear investing path, we've categorized our Focused strategy options according to these objectives:



### ACCUMULATION

Portfolios focus on total return, meaning growth of value through interest, capital gains, dividends, and distributions.



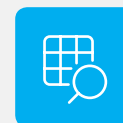
### INCOME

Portfolios seek consistent, reliable distributions from a variety of traditional and non-traditional income-producing assets.



### PROTECTION

Portfolios seek growth of assets and protection of value during catastrophic market downturns.



### TAX MANAGEMENT

Portfolios seek capital appreciation while keeping annual net taxable gains low.

# ACCUMULATION



Portfolios are focused on total return, meaning growth of value through interest, capital gains, and dividends.

## CLS's Accumulation strategies seek to help you build resources to achieve important financial goals.



College Expenses



Home Ownership



Recreation



Travel

For investors whose primary investing objective is to increase portfolio value over the long-term, CLS offers global, actively managed strategies intended as satellite allocations to complement balanced portfolios. This means we access many areas of the domestic and international markets to find investments that offer the best opportunity for growth and achievement of the strategy's specific objective.

Your CLS Focused Accumulation portfolio is actively managed, meaning we make adjustments to it in an effort to maintain the targeted risk level associated with each strategy and take advantage of opportunities in the market.

## Focused Accumulation Portfolio Management Strategies

### Enhanced Fixed Income

**CLS's Enhanced Fixed Income Strategy combines ETFs of traditional fixed income and alternatives in an effort to grow portfolio value, manage risk, and provide income.**

CLS believes a balanced portfolio should include investments that exhibit low correlation to stocks in order to stabilize overall portfolio risk. Traditionally, this meant using fixed income, such as bonds or bond funds. While bonds are still important because of their historic low risk and ability to generate income, interest rates are a concern in an environment where interest rates are rising since they greatly impact the value of bonds.

Fortunately, there are now a multitude of alternative investments and strategies you can access in addition to traditional fixed income to help diversify your portfolio, balance risk, manage inflation, and generate income.

### Why Alternatives?

- **Diversification.** Alternatives are lowly- or non-correlated to the market, meaning they can go up or down, regardless of stock market direction. This can help reduce overall portfolio volatility, and utilizing different types of alternatives adds diversity to the portfolio.
- **Liquidity.** Some categories of alternatives are more liquid than traditional bonds or bond funds.
- **Potential for Enhanced Returns.** Many alternatives have a distinct return profile that can enhance long-term returns by reducing the impact of market drawdowns.
- **Income.** Many alternatives have the ability to generate meaningful income.

## Real Assets

CLS's Real Assets Strategy invests in ETFs of hard commodities, natural resources companies, and real estate, which exhibit low correlation to traditional asset classes, may provide excess returns, and serve as a hedge against inflation.

### Why Real Assets?

The phrase "real assets" refers to a category of tangible investment options, such as hard commodities, natural resource companies, and real estate (versus stocks, bonds, and CDs, which are "paper" assets). Investing in these assets may provide:

- **Inflation Protection.** Real assets tend to keep their value in inflationary environments, thereby helping preserve purchasing power.
- **Diversification.** Since real assets historically tend to rise in value when traditional asset classes (such as stocks and bonds) fall, they may reduce overall portfolio volatility and risk.
- **Global Exposure.** Real assets can provide global exposure without the risk and cost of investing directly overseas.

### Portfolio Allocation

- 30-50% to three broad category ETFs covering real estate, natural resources, and commodities.
- Weightings are based on equity valuations, overall global economic outlook, and attractiveness of various sectors relative to fundamental factors, such as the strength/weakness of the U.S. dollar, global demand for natural resources, and the condition of global real estate and equity markets.
- 0-50% to real assets ETFs, such as agriculture, metals, energy, and U.S. REITS.
- 0-50% to ETFs of specific commodities, such as gold, oil, and cotton.

### Sample Portfolio



**Benchmark:** 33% S&P Global Natural Resources Index / 34% Dow Jones-UBS Commodity Index / 33% Dow Jones Global Select Real Estate Index

**Risk Target<sup>4</sup>:** 90

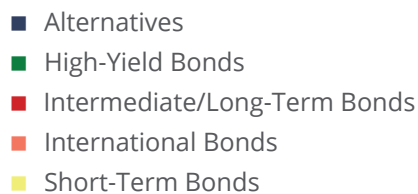
## Domestic Equities

### Portfolio Allocation

CLS's Enhanced Fixed Income Strategy generally invests in a mix of:

- Traditional fixed income, such as:
  - Corporate bonds
  - High-yield bonds
  - U.S. Treasury bills
- Alternative investments, such as:
  - Treasury inflation-protected securities (TIPS)
  - Floating-rate bonds
  - Senior bank loans
- Alternative strategies, such as:
  - Market neutral
  - Managed futures
  - Merger arbitrage

### Sample Portfolio



**Benchmark:** Barclays Aggregate Bond Index

**Risk Target<sup>4</sup>:** 20

## Focused ESG

CLS's Focused ESG Strategy offers actively managed, globally diversified exposure to environmental, social, and governance (ESG) companies through exchange traded funds (ETFs).

ESG is the new face of values-based investing and utilizes an inclusionary methodology to select companies exhibiting favorable traits in three distinct categories:

- **Environmental:** awareness of fossil footprint, wise resource management, pollution avoidance, etc.
- **Social:** human rights, workplace equality, product safety, community relations, etc.
- **Governance:** stewardship for shareholders, company leadership, transparency, accountability, etc.

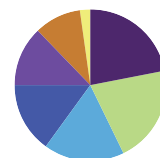
Alternatively, traditional socially responsible investing has been criticized for market-like exposure with a higher cost for the exclusionary screen of "sin stocks," such as those in the tobacco, alcohol, and firearms industries.

### Portfolio Allocation

CLS's Focused ESG Strategy primarily invests in equity ETFs, across various asset classes, which have been screened by Morningstar to be "Socially Conscious." The ETFs that are utilized must also have above-average or high ESG scores versus their peer category using data provided by Sustainalytics, a global leader in ESG research and ratings.

### Sample Portfolios

- Developed International
- Global
- Emerging Markets
- Small/Mid-Cap Core
- Large-Cap Core
- Large-Cap Value
- Short-Term Bonds/Cash



**Benchmark:** CLS Equity Baseline Portfolio (EBP)

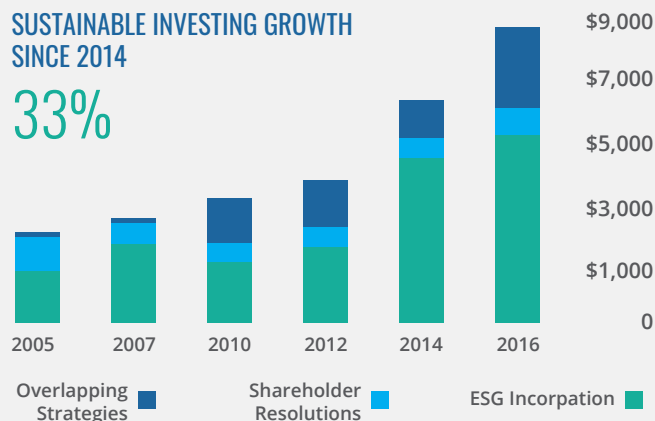
**Risk Target:** 100

## Why ESG?

Recent studies have shown that ESG companies tend to be higher quality in nature, provide increased stability, potentially outperform over time, and make our world a better place.

The evolution of ESG to a more inclusionary process has coincided with tremendous growth of sustainable investing in recent years (33% growth since 2014). This growth is poised to continue as more values-conscious investors begin saving for retirement.

### Sustainable Investing Growth in the United States (Billions) 2005-2016



*In ESG incorporation, investment institutions complement traditional, quantitative techniques of analyzing financial risk and return with qualitative and quantitative analysis of ESG policies, performance, practices and impacts. Shareholder resolutions are a meaningful way for shareholders to encourage corporate responsibility and discourage company practices that are unsustainable or unethical.*

*Source: [ussif.org](http://ussif.org) - The Forum of Sustainable and Responsible Investment*

# International Rotation

International investments are an important part of a balanced and well-rounded investment portfolio. CLS's International Rotation Strategy is designed to replace all or part of your portfolio's allocation to global or international mutual funds or stocks.

The strategy invests in ETFs, which give you access to a broader set of international stocks at lower costs, and offer the ability to own individual countries, segments, regions, and broad asset classes. The International Rotation Strategy's dynamic management approach may also allow it to more quickly adjust your portfolio in response to country-specific economic and political factors than an active mutual fund portfolio.

## Portfolio Allocation

The strategy dynamically allocates assets among four asset class segments:

**Euro Plus.** This segment will have a decidedly European bias. The remainder is divided between emerging European countries, Africa, Israel, and the rest of the Middle East.

**North and South America.** Most of the allocation within this segment is to Canada, with the remaining primarily to Brazil and Mexico. The neutral portfolio U.S. allocation is zero, but the strategy may invest here if we deem international markets to be less attractive than U.S. markets. Any allocation to the U.S. reflects a negative outlook on international equity markets.

## Why Invest Internationally?

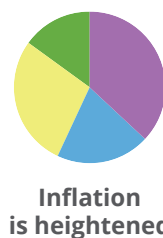
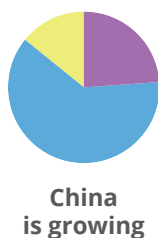
Currently, about 50% of the world's stock market value lies outside the U.S. By seeking assets across the globe, investors may achieve two important investing objectives: portfolio diversification and opportunity for growth. By investing in non-U.S. companies, investors may spread out their portfolio risk since many countries are lowly-correlated, meaning their economies are likely to perform well at different times. International portfolios may also achieve accelerated growth since they invest in faster-growing economies, particularly in emerging and frontier markets.

**Asia Pacific.** In a neutral portfolio, a little more than one-third of the overall portfolio allocation will be to this segment, with Japan and Asian emerging markets and Asia ex-Japan (Asia Pacific) making up the majority of that. The three largest neutral portfolio allocations are to Japan, Australia, and China.

**Risk Managed.** ETF allocations in this segment are designed to provide lower risk exposure than capitalization-weighted ETFs. In a neutral portfolio, allocation to this segment will be zero percent. A positive allocation reflects a negative outlook on global equity markets or is used to offset risk in other parts of the allocation.

## Sample Portfolios

- Euro Plus
- Asia Pacific
- No. & So. America
- Risk Managed



**Benchmark:** MSCI ACWI ex-U.S. Index

**Risk Target<sup>4</sup>:** 105

## Alternatives

**Broad market swings can wreak havoc on a stock-heavy investment portfolio. Diversifying a portion of your portfolio among non-correlated alternative investments and strategies may help mitigate overall risk and smooth out your returns. CLS's Alternatives Strategy utilizes liquid ETFs to provide you active exposure to these important assets.**

For investors seeking inexpensive exposure to liquid, tax friendly, and transparent alternative investments and strategies, CLS's Alternatives Strategy attempts to minimize volatility and produce positive risk-adjusted returns when compared to the broad market. CLS's use of ETFs within your portfolio means we may be able to provide you access to alternative strategies that are typically reserved for ultra high-net-worth and accredited investors, such as hedge funds and private equity, at a much lower cost.

### Portfolio Allocation

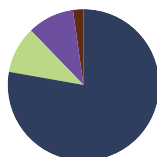
This strategy invests in ETFs that specialize in:

- Private equity
- Hedge fund replication
- Managed futures
- Infrastructure
- Merger arbitrage
- Active hedging

The strategy will not invest in broad based indexes. It primarily invests in equities, but may also incorporate commodities.

### Sample Portfolio

- Alternatives
- Large-Cap Core
- Global
- Money Market



**Benchmark:** Morningstar Diversified Alternatives index

**Risk Target<sup>†</sup>:** 40

## Why Alternatives?

- **Diversification.** Alternatives are less correlated to the market, meaning they can go up or down, regardless of stock market direction. This can help reduce overall portfolio volatility, and utilizing different types of alternatives adds diversification to the portfolio.
- **Liquidity.** Alternative strategies, available through ETFs, trade throughout the day and do not have lock-up provisions, gate provisions, or other liquidity restrictions that private vehicles encounter.
- **Potential for Enhanced Returns.** Many alternatives have a distinct return profile that can enhance long term returns by reducing the impact of market drawdowns.
- **Income.** Many alternative investments and strategies have the ability to generate meaningful income.

## Domestic Equities

**By rotating between attractive opportunities in sectors and factors, CLS's Domestic Equity Strategy gives you broad, pure exposure to the U.S. equity market and seeks to provide superior long-term risk-adjusted returns.**

The U.S. stock market is the world's largest equity market. It has historically provided attractive risk-adjusted returns, making domestic exposure an important component of a long-term investor's portfolio. Investing a portion of your portfolio domestically gives you the opportunity to own shares in some of the world's most successful corporations. When you invest in U.S. companies, you are likely investing in companies you know something about and whose products and services you may use every day.

CLS's strategy of investing among a variety of domestic sectors and factors means that we may be able to reduce the risk of a single stock or industry negatively impacting the performance of your entire portfolio. Our active, disciplined investment selection process also gives us flexibility to react quickly to changing market conditions.

## Active High-Quality

Numerous studies show that high-quality stocks have historically outperformed other types of stocks over the long term with less risk. CLS's Active High-Quality Strategy offers you pure, active global exposure to these high-quality investments.

Significant empirical evidence from academic research emphasizes the benefits of quality investments:

- **Higher Profitability.** High-quality companies tend to have above-average profitability measures, such as return on equity (ROE), return on assets (ROA), and net profit margin. Higher returns can allow companies to reward their shareholders through internal growth, dividends, or share repurchases.
- **Stronger Balance Sheets.** Debt-to-capital is a leading statistic used to measure the quality of a company's balance sheet. Lower debt levels allow a company more freedom to grow in the future.
- **Earnings Growth.** Companies with higher and more stable earnings growth can support stronger dividend growth. The average long-term earnings growth estimates are higher for companies with superior historic ROE and ROA figures.
- **Dividend Growth.** Managers in stable corporations with confidence in the future are better able to consistently grow dividends. ROE is a key attribute of such companies.

## Why High Quality?

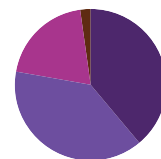
- **Potential for Outperformance.** High-quality stocks have historically outperformed the overall market on a total return and risk-adjusted basis.<sup>5</sup> Quality has outperformed both large-cap and small-cap stocks for not only the global market, but also across multiple regions including North America, Europe, and Japan.
- **Lower Risk.** Historically, during down markets, as well as periods of high volatility, widening credit spreads, and a steepening yield curve, the quality premium has tended to be positive. Historic performance of the MSCI USA Quality Index versus the MSCI USA Index shows quality's total return outperforming over 5-, 10-, and 15-year periods with significantly lower volatility.<sup>6</sup>

## Portfolio Allocation

CLS's Active High-Quality Strategy invests in high-quality domestic and international equity ETFs that meet stringent criteria for profitability, balance sheet strength, and growth. We prefer those with higher liquidity measures and lower expense ratios.

## Sample Portfolio

- Developed International
- Large-Cap Core
- Large-Cap Growth
- Money Market



**Benchmark:** CLS Equity Baseline Portfolio (EBP)

**Risk Target\*:** 95

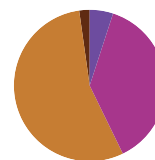
## Domestic Equities

### Portfolio Allocation

- Sector-specific ETFs, such as:
  - Technology
  - Financials
  - Healthcare
- Factor-specific ETFs, such as:
  - Quality
  - Low-volatility
  - Momentum

### Sample Portfolio

- Large-Cap Core
- Large-Cap Growth
- Large-Cap Value
- Money Market



**Benchmark:** 100% Russell 3000 Index

**Risk Target\*:** 95

# INCOME



Portfolios seek consistent, reliable distributions from a variety of traditional and non-traditional income-producing assets.

## You've worked hard to build your investment portfolio.

**CLS's Active Income X Strategy can help you get the most from what you've saved.**

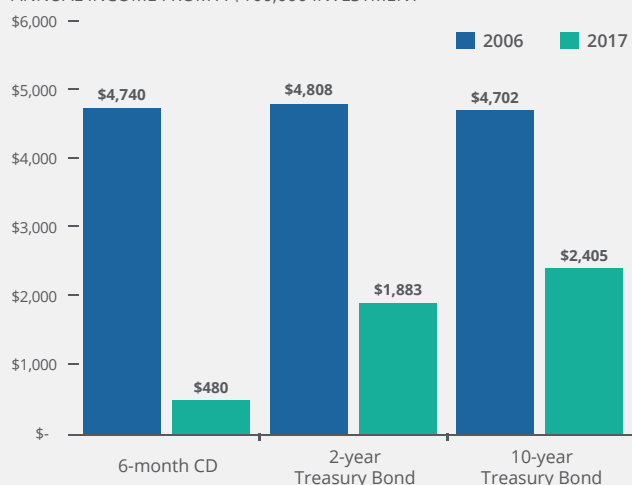
Traditionally, investors have relied on investments like CDs and bonds to generate income. However, in a low interest rate environment, these conventional sources may not yield enough to meet your income needs. They also typically provide less opportunity for portfolio growth than stocks.

So as an investor seeking income, you may be searching for other types of assets to supplement these traditional assets. You may also benefit from a total return approach to the management of your portfolio, which seeks return from interest, capital gains, dividends, and distributions.

CLS's Active Income X Strategy combines a variety of traditional and non-traditional income-generating assets from around the globe that offer the best yield and risk/return opportunities. CLS's active, risk-focused approach provides stability to your portfolio, which we believe provides a better opportunity to increase your income and potentially your capital gains.

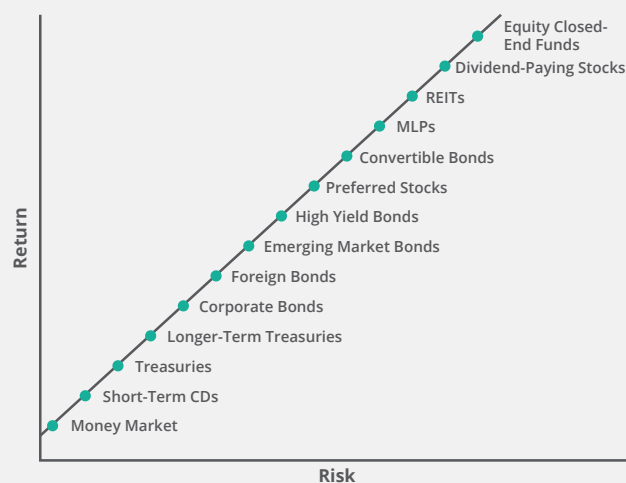
### Traditional "Safe" Sources of Income Are Yielding a Fraction of What They Once Did

ANNUAL INCOME FROM A \$100,000 INVESTMENT



Source: J.P. Morgan Asset Management. Shown for illustrative purposes only. Income figures for Treasuries reflect yield to maturity, which may include gains or losses for bonds not priced at face value. Data as of 12/31/17.

### A Broader Mix of Asset Classes Can Expand Opportunities For Yield and Price Gains



**CLS's Active Income X Strategy is designed for investors seeking a specific steady income yield from a diversified portfolio of income-producing assets.**

This actively managed strategy uses ETFs and/or closed-end funds (CEFs) in an attempt to:

- Reach an income yield target between 3% and a maximum target percentage\* (net of fees), while seeking to limit the amount of risk required to attain the net yield.
- Maintain diversified exposure to income-producing assets.
- Provide dependable yields in various market conditions.

## Portfolio Allocation

The strategy invests in ETFs and CEFs that specialize in income-producing assets. In addition to traditional dividend-oriented equities and investment grade bonds, the strategy generates income using non-traditional asset classes, such as master limited partnerships, real estate, convertibles, senior bank loans, high-yield bonds, international debt, and active hedging.

The use of CEFs provides opportunity to buy assets at prices below their true value, as CEFs often trade at large discounts to their Net Asset Values. In addition, some CEFs provide access to leverage (increasing investable assets by borrowing).

## Sample Portfolio

■ Fund Money Market

■ Global Stocks

■ High-Yield Bonds

■ Intermediate/Long-Term Bonds

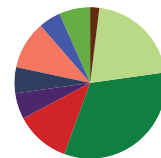
■ International Bonds

■ Preferred Securities

■ Real Estate

■ Small/Mid-Cap Core

■ Small/Mid-Cap Value



**Benchmark:** NASDAQ U.S. Multi-Asset Diversified Income Index

**Risk Target\*:** 65-85 depending on the selected yield target

## Risk Considerations

CLS's Active Income X Strategy is not a substitute for a bond portfolio, as it will take on more risk than a conventional bond portfolio. Risks may include those related to credit, equity, concentration, liquidity, duration, leverage, tax cost, and principal.

## Producing Income through CEFs

A CEF is a publicly traded investment, like an open-ended mutual fund or ETF. Like an ETF, CEFs trade intra-day on an exchange. Unlike an ETF or mutual fund, a CEF has a fixed number of shares. In addition, share prices for a CEF may substantially deviate from the fund's net asset value (NAV). When demand for shares exceeds the supply, the share prices may trade at a premium (above NAV). When supply exceeds demand, share prices may trade at a discount (below NAV). Certain CEFs also utilize leverage and/or options, which are typically not found in other fund structures.

These features, in addition to the opportunity to buy a fund trading at a discount to its NAV, make CEFs especially attractive for income-oriented strategies.

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

# PROTECTION



Portfolios pursue capital growth during sustained market uptrends, yet seek protection of assets during catastrophic market downturns.

## Investing is an emotional experience.

**You have a lot at stake, and the markets can take you on a bumpy ride. If this affects your sleep, CLS's Protected Equities Strategy may be right for you.**

Suppose you have \$500,000 invested but then experience a severe market downturn. If you lost 30% of your savings, it could take you more than seven years to recover, which could be a major setback to your retirement plans. CLS's Protected Equities Strategy is designed to protect your portfolio against a catastrophic market decline like this.

What makes this strategy unique is that it's not designed to simply add bonds to your portfolio or react to every little move in the market. Rather, when the market is experiencing a sustained uptrend, this strategy seeks growth opportunities for your portfolio. Yet, if the market declines below a pre-determined point, portions of your investments begin moving to less volatile investments in an effort to protect your account value and keep you on track with your long-term financial goals.

### Approximate years to recover initial investment after a market downturn\*

First Year Loss	Years to Recover
-10%	2.2
-15%	3.3
-20%	4.6
-25%	5.9
-30%	7.3
-35%	8.8
-40%	10.5
-45%	12.3
-50%	14.2

\*assumes a 5% real return (inflation-adjusted) after experiencing the indicated loss.

## Portfolio Allocation

The strategy dynamically allocates assets among four asset class segments:

**Opportunistic Equities.** When equity markets are fairly calm and generally rising, the strategy substantially allocates assets to ETFs investing in asset classes that are generally more aggressive than a diversified equity portfolio. If markets begin to decline, CLS reduces the allocation to this section most quickly.

**Low-Volatility Equities.** This segment is the first line of defense against a declining market. As prices decline, CLS moves assets from the most aggressive segments to assets that show less risk than the broader equity market, as measured by their volatility.

**Large-Cap Domestic Equities.** The majority of this segment is allocated to stocks included in the S&P 500 Index and other domestic large-cap stock indexes. While this segment is focused on growth, it is often less volatile than the opportunistic equities segment.

**U.S. Treasury ETFs.** When an equity market decline becomes more severe, assets are transferred to U.S. Treasury ETFs. These have traditionally shown extremely low volatility. The segment also includes a cash allocation of at least 2%.

**CLS's Protected Equity Strategy seeks to protect account principal against large market downturns, while also pursuing account growth.**

Current equity market prices influence the allocation of assets between those seeking growth of capital (opportunistic and large-cap domestic equities) and those seeking protection of principal (low-volatility equities and U.S. Treasury ETFs):

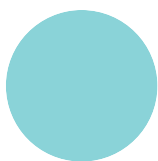
- as equity market prices decline, the strategy is more likely to invest in low-volatility and/or U.S. Treasury ETFs.
- as equity market prices increase, the strategy is more likely to invest in ETF assets seeking growth, such as opportunistic and large-cap domestic equities.

The CLS Protected Equities Strategy uses a sensitivity level and multiple trigger points to determine when the portfolio must trade into less volatile equities and/or U.S. Treasury ETFs in an effort to protect the original investment:

- **Sensitivity Level.** The market value at which the trigger points become active. This automatically resets if the market value increases to a pre-determined level.
- **Trigger Points.** Signals that cause movement into or out of less volatile equities and/or U.S. Treasury ETFs.

### Sample Portfolios

- Diversified Stock ETFs
- Low-Volatility Equities
- U.S. Treasury ETFs



Market is flat/rising



Market is declining



Market is severely declining

**Benchmark:** 60% Russell 3000 Index, 15% MSCI ACWI ex-U.S. Index, 25% Barclays Capital 1-3 Month U.S. Treasury Index

**Risk Target:** 85

### The CLS Protected Equities Strategy may be beneficial if you:

- are particularly sensitive to market declines due to a shortened investment time horizon or an extreme fear of decreasing account value.
- recognize that this is not simply a conservative strategy or designed to protect against normal market volatility.
- understand that the strategy is designed to potentially protect you from catastrophic losses – those that may permanently derail your long-term financial objectives or significantly alter your lifestyle.

# TAX MANAGEMENT



Portfolios seek capital appreciation while keeping annual net taxable gains low.

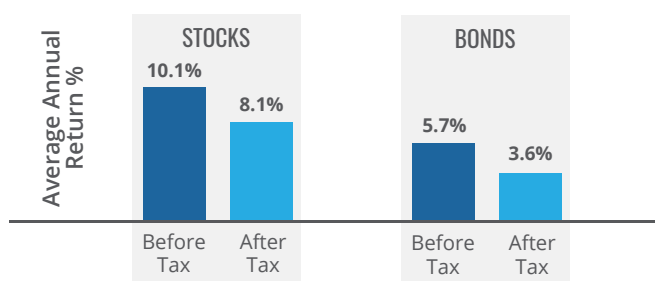
## You've worked hard to build your wealth.

**CLS's Tax-Aware Bond Strategy helps you keep your wealth by maximizing the post-tax total return of your portfolio.**

Taxes are inevitable. Managing them is a lifelong process, as their impact on investment performance can be significant. In fact, a Morningstar, Inc. study showed that during the 87-year period ending in 2013, investors who ignored tax ramifications within their portfolio lost between one and two percent of their annual returns to taxes. And, since 1940, there have been 80 major changes in U.S. tax legislation. Each time a change occurs, your portfolio can be significantly affected.

Therefore, it is important to make strategic, tax-conscious decisions about your portfolio's investments, particularly if the majority of your assets are in taxable accounts. Your strategy will seek to increase the tax efficiency of your portfolio so you can manage every possible dollar in taxes.

### Impact of Taxes on Investment Returns 1926-2014



**Taxes can significantly impact your investment portfolio. A tax-conscious strategy can help lessen this impact, creating after-tax return that is closer to the investment's full value before taxes.**

Tax Type	Portfolio Impact
Long-Term Capital Gains Qualified Dividends	Up to 23.8%*
Short-Term Capital Gains Interest and Non-Qualified Dividends	Taxed at the same rate as ordinary income, which may be up to 43.4%*

\*Portfolio impact analyzed with January 2015 tax rates and includes a 3.8% Medicare surtax. State and local taxes may further impact a portfolio. The tax information contained herein is general in nature, is provided for informational purposes only, and should not be construed as legal or tax advice. CLS does not provide legal or tax advice. CLS cannot guarantee that such information is accurate, complete, or timely. CLS makes no warranties with regard to such information or results obtained by its use. CLS disclaims any liability arising out of your use of, or any tax position taken in reliance on, such information. Always consult an attorney or tax professional regarding your specific legal or tax situation.

**CLS's Tax-Aware Bond Strategy seeks to provide federal tax-free income by investing in municipal bond ETFs. The strategy also seeks to provide low-risk exposure and diversification against traditional equities.**

## Portfolio Allocation

The strategy invests in traditional municipal bond fixed income assets, including those that are short duration, long duration, and state-specific.

## Sample Portfolios

- High-Yield Municipal Bonds
- Intermediate/Long-Term Municipal Bonds
- Short-Term Municipal Bonds

**Benchmark:** *Barclay's Municipal Bond Index*

**Risk Target<sup>4</sup>:** 10



## Why Municipal Bonds?

Municipal bonds are issued by a U.S. state, municipality, or county to finance its capital expenditures.

Municipal bonds are appealing because they often represent investments in state and local government projects that have an impact on daily life, including construction or improvement of schools, highways, hospitals, housing, and other important public projects. Potential issuers include: cities, counties, redevelopment agencies, special-purpose districts, school districts, public utility districts, publicly-owned airports and seaports, and any other governmental entity below the state level. Municipal bonds may be general obligations of the issuer or secured by specified revenues.

Municipal bonds help mitigate potentially negative tax consequences since the interest income that bondholders earn is often exempt from federal income tax. Interest income may also be exempt from state, local, and the alternative-minimum (AMT) tax. Also, unlike new issue securities that are brought to market with price restrictions until the deal is sold, municipal bonds are free to trade at any time once the investor purchases them.

# About CLS

**CLS Investments (CLS) is a third party investment manager, ETF strategist, and long-time trusted partner in the financial industry. CLS's extensive risk management experience, active asset allocation approach, and customizable strategy offerings have led clients to entrust their portfolios to CLS since 1989.**

Through CLS's partnership structure, your financial advisor maintains a direct relationship with you, while CLS's portfolio management and analytics teams take on the day-to-day research, trading, and operations required to manage your account. Together, you and your advisor use the tools CLS provides to determine the investing strategy, investment types, and risk tolerance level most appropriate for you. Your advisor provides this information to CLS so we can accordingly make timely active asset allocation decisions within your portfolio. Through this mutually beneficial connection, CLS enhances your advisor's service to you.

**1989**  
Founded

**\$8.8B\***  
Assets Under Management

**42K+**  
CLS Clients

**14**  
Portfolio managers & analysts

*\*as of 5/31/18*

<sup>1</sup> Morningstar, April 2015

<sup>2</sup> 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 U.S. 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.

<sup>3</sup> 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 U.S. 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.

<sup>4</sup> Each strategy is managed to a specific long-term risk target. However, the risk of these strategies may change based upon current market conditions.

<sup>5</sup> Time period: 7/1988 to 6/2012. Long-Only Global Portfolio Returns with Factor Tilts. From January 7, 2013 paper "Global Return Premiums on Earnings Quality, Value, and Size" by Max Kozlov and Antti Petajisto.

<sup>6</sup> Morningstar, as of 12/31/2015

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An ETF is a type of investment company whose investment objective is to achieve the same return as a particular index, sector, or basket. To achieve this, an ETF will primarily invest in all of the securities, or a representative sample of the securities, that are included in the selected index, sector, or basket. ETFs are subject to the same risks as an individual stock, as well as additional risks based on the sector the ETF invests in. A closed-end fund (CEF) is a publicly traded investment company that raises a fixed amount of capital through an initial public offering (IPO). The fund is then structured, listed and traded like a stock on a stock exchange. It represents an interest in a specialized portfolio of securities that is usually actively managed by an investment advisor and which typically concentrates on a specific industry, geographic market, or sector. The buying and selling in an active managed portfolio may result in higher fees and increased taxes. The price of a CEF fluctuates according to market forces (supply and demand) as well as the changing values of the securities in the fund's holdings. CEFs are subject to the same risks as an individual stock, as well as additional risks based on the sectors or the leverage and/or options used in the fund. Bonds are a type of debt instrument issued by a government or corporate entity for a defined period of time at a fixed interest rate. Bonds may be subject to unsystematic risks including, but are not limited to, call risk and reinvestment risk. High yield bonds, or junk bonds, will be subject to an even greater degree of these risks as well as subject to the credit risk.

The S&P Global Natural Resources Index includes 90 of the largest publicly-traded companies in natural resources and commodities businesses that meet specific investability requirements, offering investors diversified and investable equity exposure across 3 primary commodity-related sectors: agribusiness, energy, and metals & mining. 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 significance and market liquidity. The Dow Jones Global Select Real Estate Index is designed to serve as proxies for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than real estate operating companies traded globally. It includes companies that are both an equity owner and operator of commercial and/or residential real estate with at least 75% of the company's total revenue derived from the ownership and operation of real estate assets. The company must have a minimum total market cap of \$200 million. The Barclay's Capital U.S. Aggregate Bond® Index measures the performance of the total United States investment-grade bond market. An index is an unmanaged group of stocks considered to be representative of different segments of the stock market in general. The Morningstar U.S. Real Asset Index includes four different asset classes that have historically displayed high sensitivity to inflation, including Treasury inflation-protected securities (TIPS), commodities, real estate investment trusts (REITs), and commodity stocks. The MSCI All-Countries World Index, excluding U.S. (ACWI ex-U.S.) 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. 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. An index is an unmanaged group of stocks considered to be representative of different segments of the stock market in general. 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-U.S. Index), rebalanced daily. 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 MSCI All-Countries World Index, excluding U.S. (ACWI ex-U.S.) 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. The NASDAQ U.S. Multi-Asset Diversified Income Index includes equities, REITs, MLPs, preferreds and high yield corporate bonds. Each segment includes U.S.-listed 25 securities that are included based on liquidity, size, volatility and yield. 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. Barclay's Municipal Bond Index is a benchmark that measures the investment grade, U.S. dollar-denominated, fixed tax exempt bond market. The index includes state and local general obligation, revenue, insured, and pre-refunded bonds.