Manage Risk Today, Diversify for Tomorrow

Mark Mowrey
Innealta

Adam Newell
DiMeo Schneider & Associates

NFP Advisor Services Group

2014 NFP STRATEGY SUMMIT

DiMeo Schneider & Associates, L.L.C.

Manage Risk Today & Diversify for Tomorrow

March 2014

Exceeding Your Expectations

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ACR # 116019

Welcome

Robert DiMeo, Managing Director

- 30 years industry experience; co-author 4 investment books, numerous articles and whitepapers; 18 years with DiMeo Schneider
- Previously directed Midwest institutional consulting effort for Kidder, Peabody
- Catholic Charities Advisory Board; Special Olympics of Illinois Foundation Board Member; previous Board of Directors for Investment Management Consultants Assn. and Governance Board Notre Dame High School
- Bradley University, BS
- Obtained CIMA® at the Wharton Business School IMCA Accreditation Program and CFP at the College of Financial Planning
- Email - bdimeo@dimeoschneider.com

Sumit Mehta, Senior Consultant

- 18 years of industry experience
- Consultative approach to retaining and growing clients in the institutional, nonprofit and high net worth verticals
- Chicago Gateway Green Associate Board Member
- Previously Head of Midwest Sales & Trading at Susquehanna Financial Group, Director of Institutional Sales at UBS Investment Bank and Equity Research Analyst at Raymond James Financial
- University of Michigan at Ann Arbor, MBA; University of Texas at Austin, BA
- Email – smehta@dimeoschneider.com

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Game Plan

Robust Approach to Portfolio Management

Actionable Takeaways for Client Conversations

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DiMeo Schneider & Associates, L.L.C.

Large Enough to Serve, Small Enough to Care

About DiMeo Schneider & Associates, L.L.C.

Founded in 1995

- Based in Chicago, IL
- Exceeding $50 billion Assets Under Advisement
- Conflict-Free Consulting
    - 250+ Institutions
    - 200+ Wealthy Families

Investment Professionals

- 9 Active Partners
- 30 Investment Consultants
- 25+ Professionals Participate in Research Efforts
- Numerous CFA Charterholders, CIMAs and CFPs
- 10 Member Investment Committee

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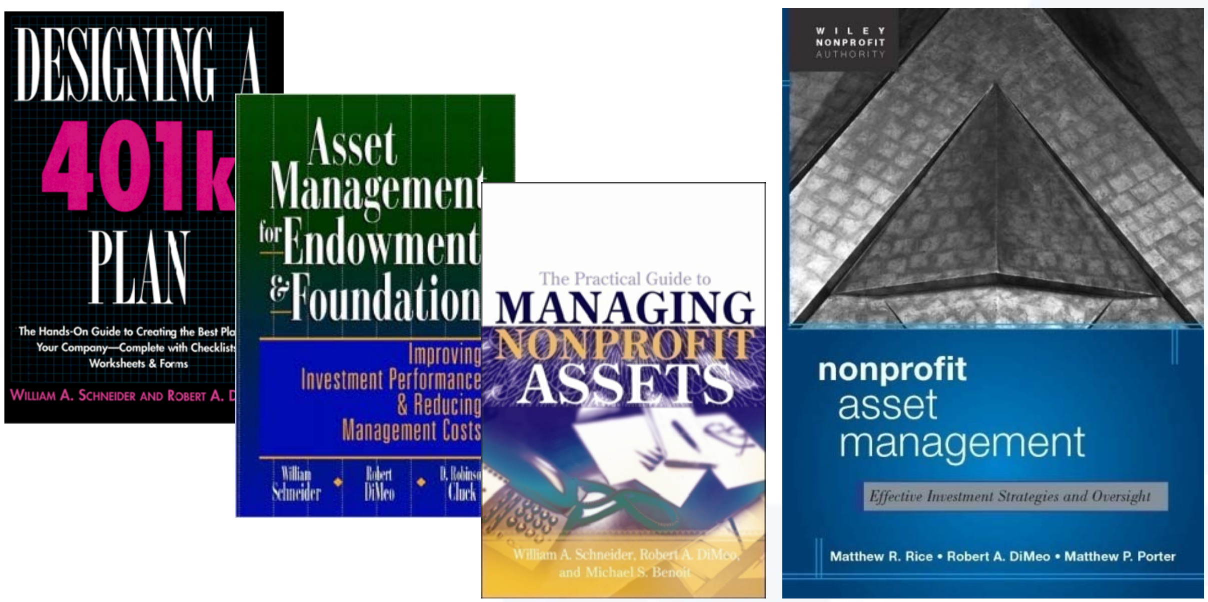
Firm Recognition and Expertise

Top 10 Endowment/Foundation Consultants – Plan Sponsor Magazine*

Top 40 Worldwide Consultants – Pension & Investment Special Report**

Top 20 Fastest-Growing Registered Investment Advisors – Forbes***



Client Survey Results
(excerpt)

•95% of respondents believe we provide exceptional value for the fees we charge

•98% rank the firm as above average/superior

•98% of clients would recommend our services

Details of 2012 survey available upon request

*Top 10 Consultants by number of reported endowment/foundation consulting clients 2010
**Top 40 Consultants ranked by worldwide, institutional tax-exempt advisory assets under advisement as of November 2013
*** Top 20 Registered Investment Advisors in 2011, ranked by the most assets added since 2008

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2013 Firm Updates

- Another record year of new business – THANK YOU!
- Added a number of institutional, nonprofit and private clients
- The firm has grown to ~70 associates, > 25 in Research
- Conducted 1,000+ in-person money manager meetings
- Knowledge & Support: Annual Conference (October 1), Webinars, Timely Analysis

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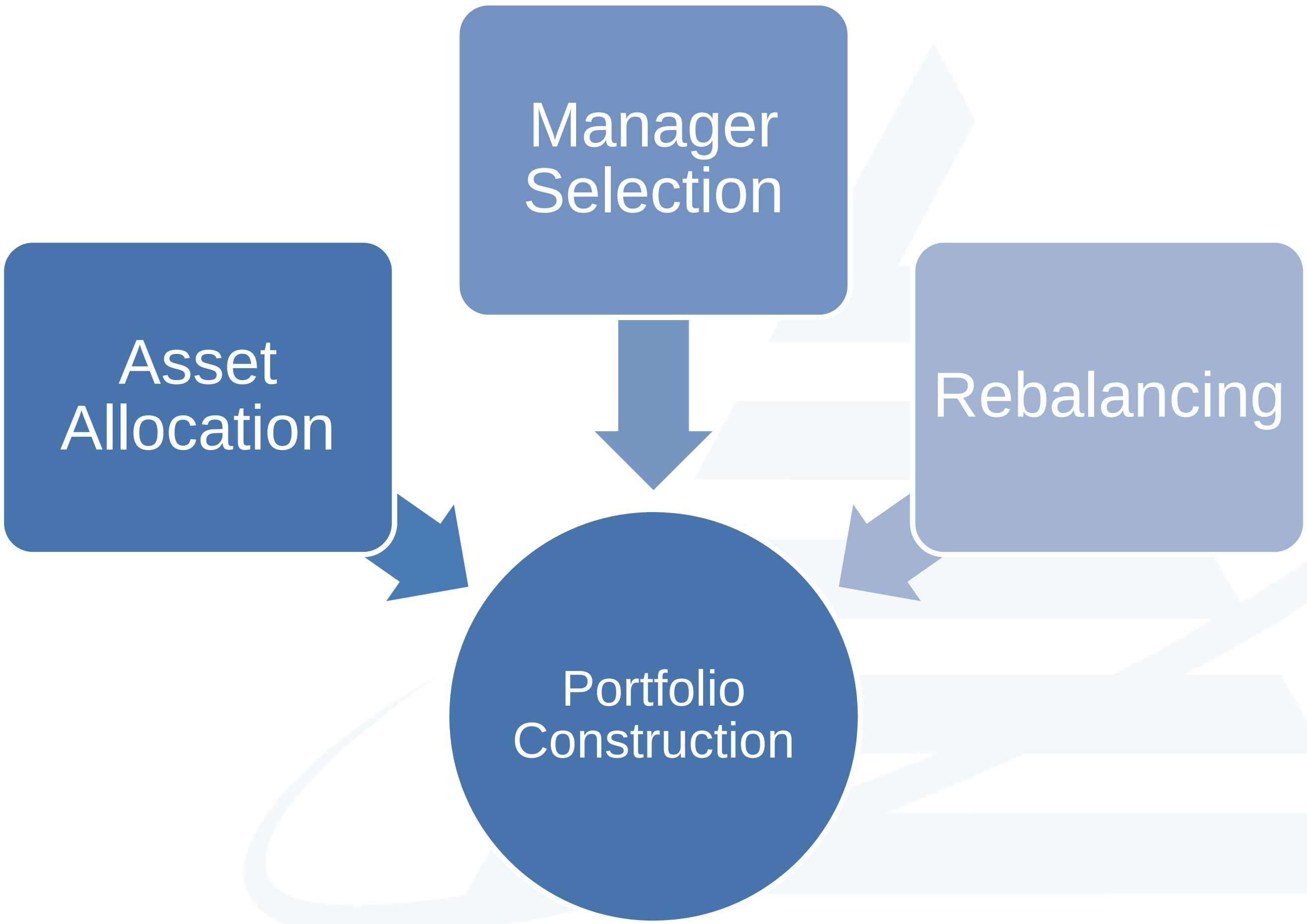
Robust Approach



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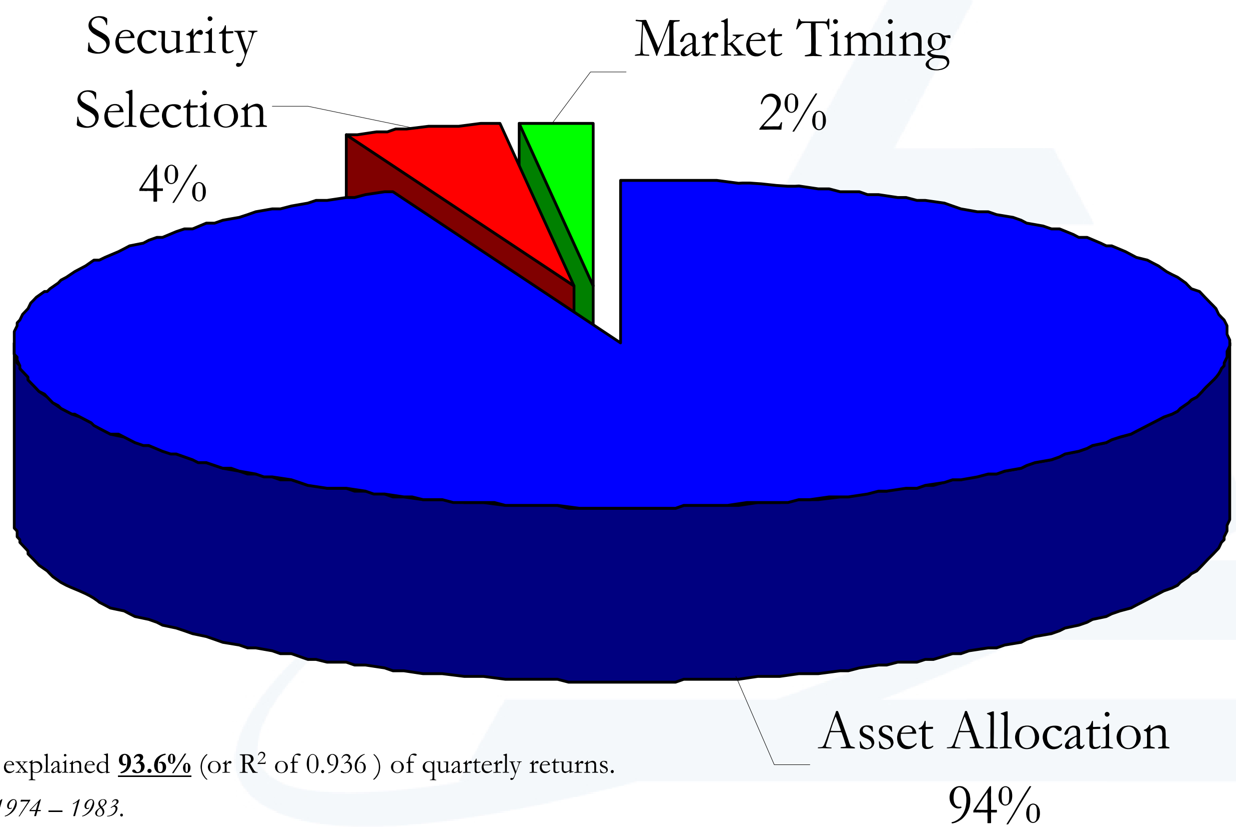
Importance of Asset Allocation

Components of Investment Return [Brinson, Hood & Beebower (1986)]



Allocation benchmarks explained **93.6%** (or R^2 of 0.936) of quarterly returns.

[1] 91 large pension funds from 1974 – 1983.

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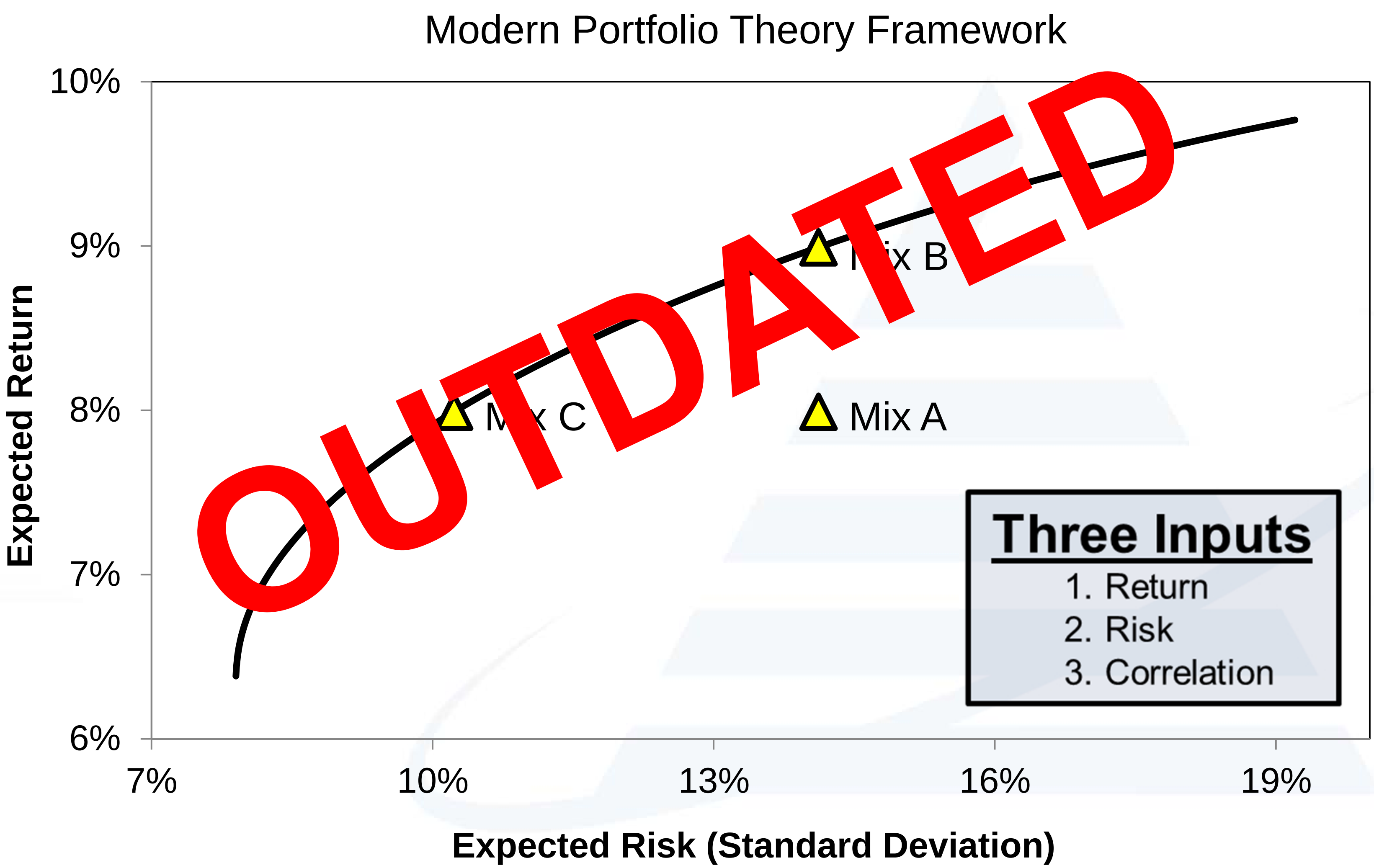
Traditional Asset Allocation



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Robust Manager Research: Traditional

Initial Screens
- Style analysis
- Proprietary multi-factor model
- Compared to peer(s) and benchmark(s)
- Portfolio composition

Qualitative Review
- Portfolio characteristics
- Expenses
- Assets managed
- Market capitalization
- Duration

Custom Questionnaire and Analysis
- Investment and non-investment assessment
- People
- Process
- Philosophy
- Performance
- Risk Management
- Operational

Deep-dive Research
- The 4 "P's"
- Organizational structure
- Succession plans
- Compensation
- Compliance systems
- Trading process
- Portfolio construction
- Buy/Sell discipline
- Composite methodology
- Portfolio holdings
- Legal & regulatory concerns

Committee Approval
- Investment Committee:
  - -10 Members
  - - Partners
  - - Sr. Consultants
  - - Sr. Analysts
- Robust review and debate
- Majority approval required to include/retain manager
- Results in 5 to 7 managers per asset class

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Disciplined Rebalancing Methodology

Traditional Methods	The Portfolio Engineer™
✓ Never ✓ Seat of the Pants ✓ Percentage Dependent ✓ Time Dependent	✓ Total Portfolio Risk Budgeting ✓ Risk Monitoring ✓ Risk Management ✓ Risk Mitigation ✓ Improve Performance ✓ Reduce Transactions

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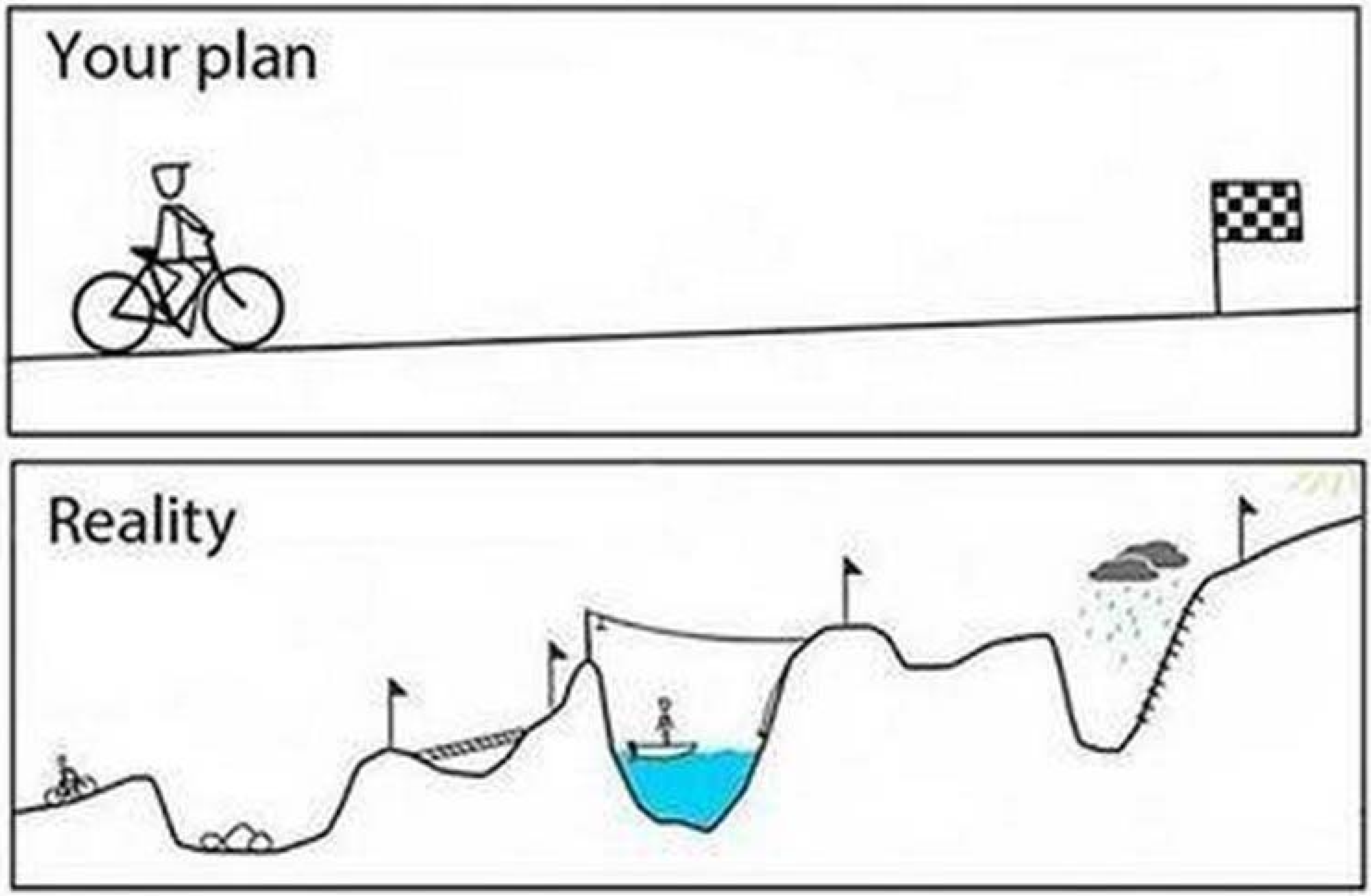
There will be bumps in the road



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Questions Answered

1. Has a market high ever felt so bad?
2. Is Diversification Dead?
3. Should I dump my underperforming fund?
4. Will bonds get crushed?
5. Are you overly sensitive to…your "End Point"?

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Has A Market High Ever Felt So Bad?

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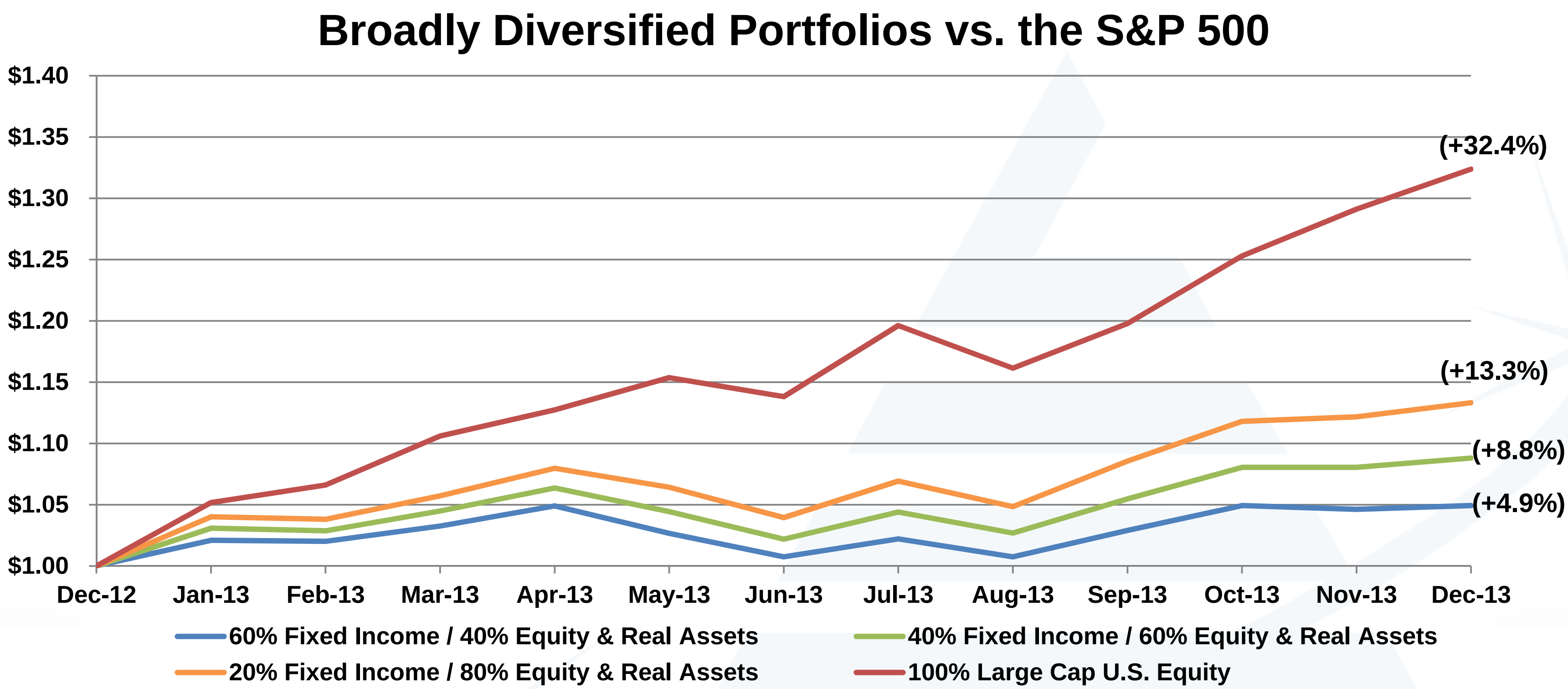
S&P 500 Thrashes Diversification in 2013



60% Fixed Income / 40% Equity & Real Assets: *7% TIPS, 22% Core Fixed Income, 17% Foreign Developed Bonds, 9% High Yield Bonds, 5% Emerging Markets Bonds, 7% Large Cap U.S. Equity, 2% Small Cap U.S. Equity, 5% International Developed Equity, 3% Emerging Markets Equity, 6% Real Estate, 8% MLPs, and 9% Commodities.*
40% Fixed Income / 60% Equity & Real Assets: *6% TIPS, 9% Core Fixed Income, 11% Foreign Developed Bonds, 10% High Yield Bonds, 4% Emerging Markets Bonds, 12% Large Cap U.S. Equity, 4% Small Cap U.S. Equity, 11% International Developed Equity, 6% Emerging Markets Equity, 8% Real Estate, 8% MLPs, and 11% Commodities.*
20% Fixed Income / 80% Equity & Real Assets: *3% TIPS, 3% Core Fixed Income, 5% Foreign Developed Bonds, 7% High Yield Bonds, 2% Emerging Markets Bonds, 17% Large Cap U.S. Equity, 6% Small Cap U.S. Equity, 18% International Developed Equity, 11% Emerging Markets Equity, 10% Real Estate, 8% MLPs, and 10% Commodities.*

The fully invested Large Cap U.S. Equity portfolio is invested solely in the S&P 500. The allocations for the three sample diversified portfolios are shown on the following page. All portfolios were not rebalanced during the year.

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How Unusual was 2013 S&P 500 Outperformance?

Comparison	SP 500 Return	Compared Index	SP Excess Return	# Years > Excess
SP to Barclay Agg. Bond	32.4%	(2.0%)	34.4%	0 of 38
SP to MSCI Emerging Mkts		(2.3%)	34.7%	3 of 26
SP to DJ-UBS Commodity		(9.5%)	41.9%	1 of 23

**Different total years reflect different starting points of respective indices.*

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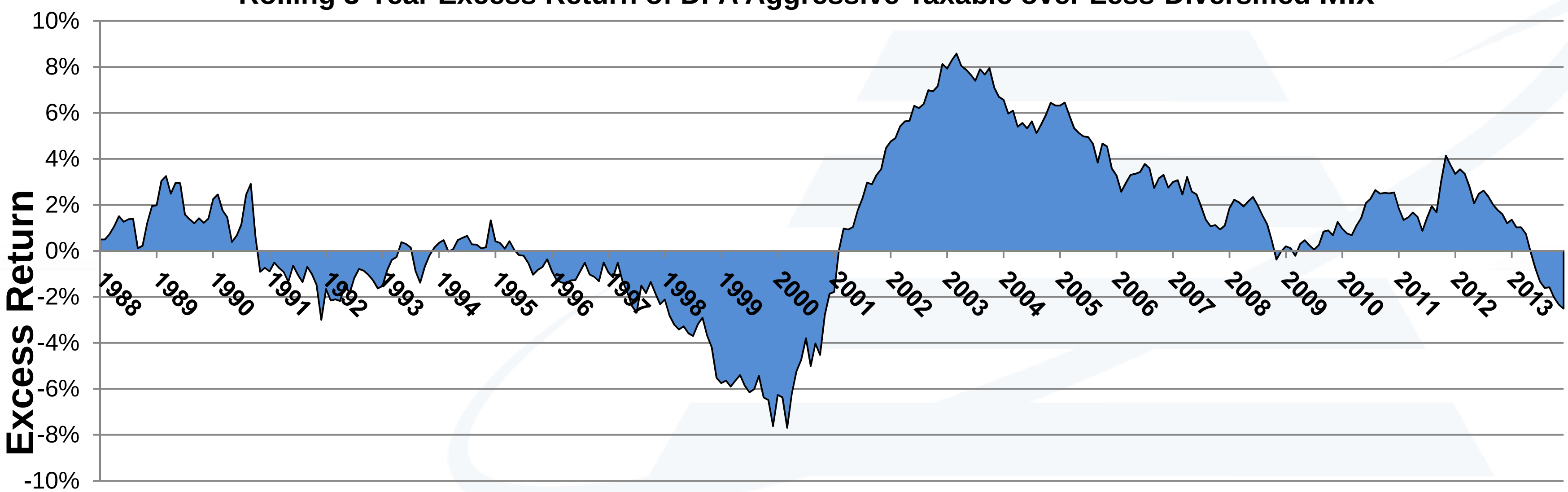
Diversification Has Added Value Over Time

Despite 2013 being a difficult year for broad asset class diversification (versus a US Equity-centric reference point), the Disciplined Portfolio Advisor™ target asset mixes historically added value versus a less diversified allocation over time.*

DPA Aggressive Taxable diversified target allocation mix vs. Broad Benchmark Allocation:

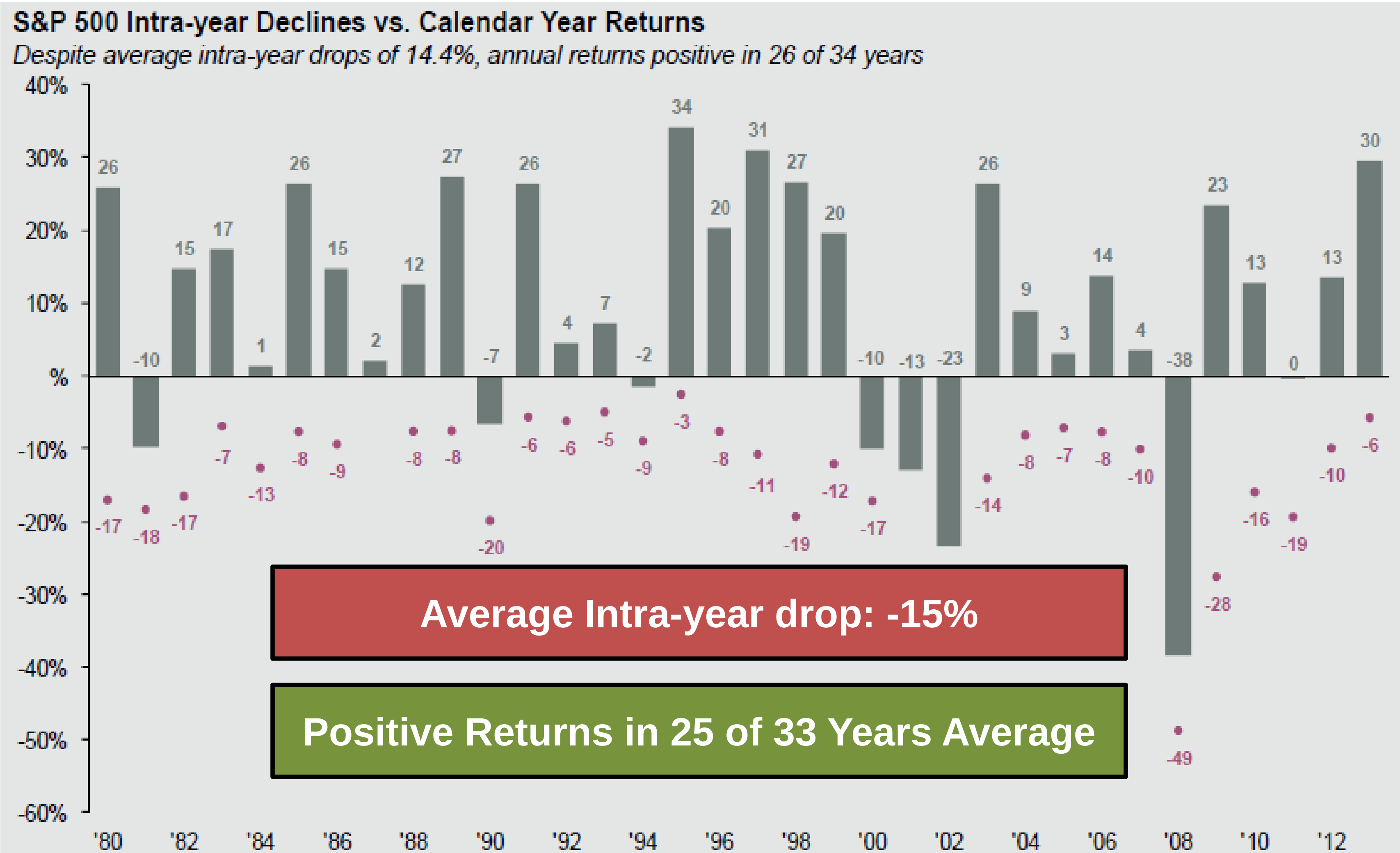
- ✓ ***Excess returns in 63% of rolling 36-month periods*** *since 1988.*
- ✓ ***Lower volatility in 73% of rolling 36-month periods*** *since 1988.*

Rolling 3-Year Excess Return of DPA Aggressive Taxable over Less-Diversified Mix



*Less diversified benchmark allocation is represented by 17% BAGG, 51% All Cap US, and 19% International Developed, 13% Emerging Markets. DPA Aggressive Taxable uses current target asset allocation. All simulated performance figures exclusively use composite index returns to illustrate differences in asset allocation effects over time.

Will There be a Correction or Bear Market? YES!



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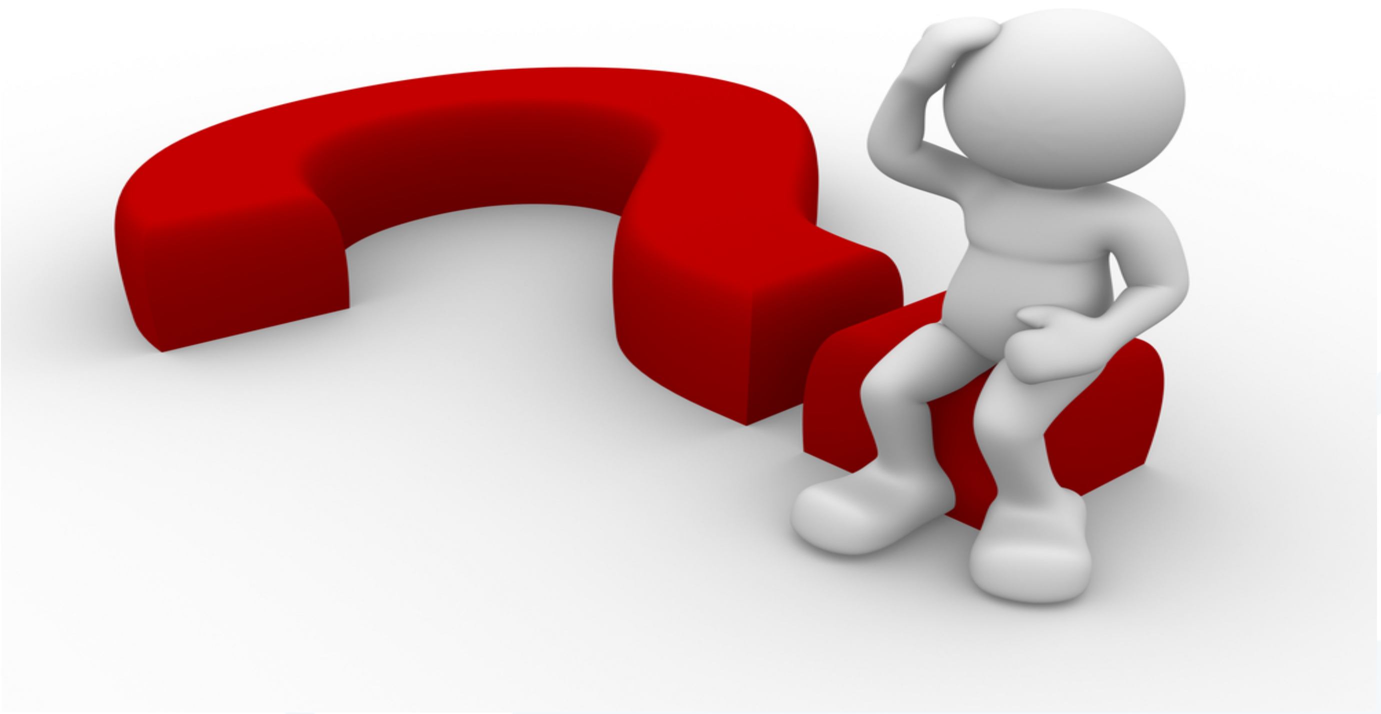
Should I Dump My Fund?



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10-Year Top Quartile Funds (2002-2011)

<u>Top Managers Underperformed over Shorter Periods</u>

- ✓ **90%** at least one <u>3-year period</u> in bottom half of peer group
- ✓ **63%** at least one <u>5-year period</u> in bottom half of peer group

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"Be Patient or Invest Passively"

For complete White Paper and other useful resources, please visit: **www.dimeoschneider.com**

DiMeo Schneider & Associates, L.L.C.
By: Matthew Rice, CFA & Geoffrey Strotman, CFA
► September 2012

The Next Chapter in the Active versus Passive Debate (2012 Update)

An analysis of active manager performance, consistency and persistency

In 2007, we authored "The Next Chapter in the Active versus Passive Management Debate," where we evaluated the persistency of top quartile mutual funds[1] in 17 different categories during the ten-year period ending December 2006. We updated the study in 2010 and now for the ten-year period ending December 2011. The key observations from our 2007 and 2010 studies remain largely intact in this 2012 update.

Key Observations:

- ► 90 percent of ten-year top quartile mutual funds[1] were unable to avoid at least one three-year stretch in the bottom half of their peer groups. This is up from 85 percent in our 2010 study but in-line with the 89 percent finding in our 2007 study.
- ► 63 percent of ten-year top quartile mutual funds were unable to avoid the bottom half during a five-year period. This is in-line with our 2010 figure of 62 percent but up significantly from 51 percent in our 2007 study.
- ► Top quartile mutual funds whose three-year performance was in the bottom half spent an average of four consecutive quarters below median. On average, top quartile mutual funds spent 23% of all rolling three-year periods in the bottom half of their respective peer groups.

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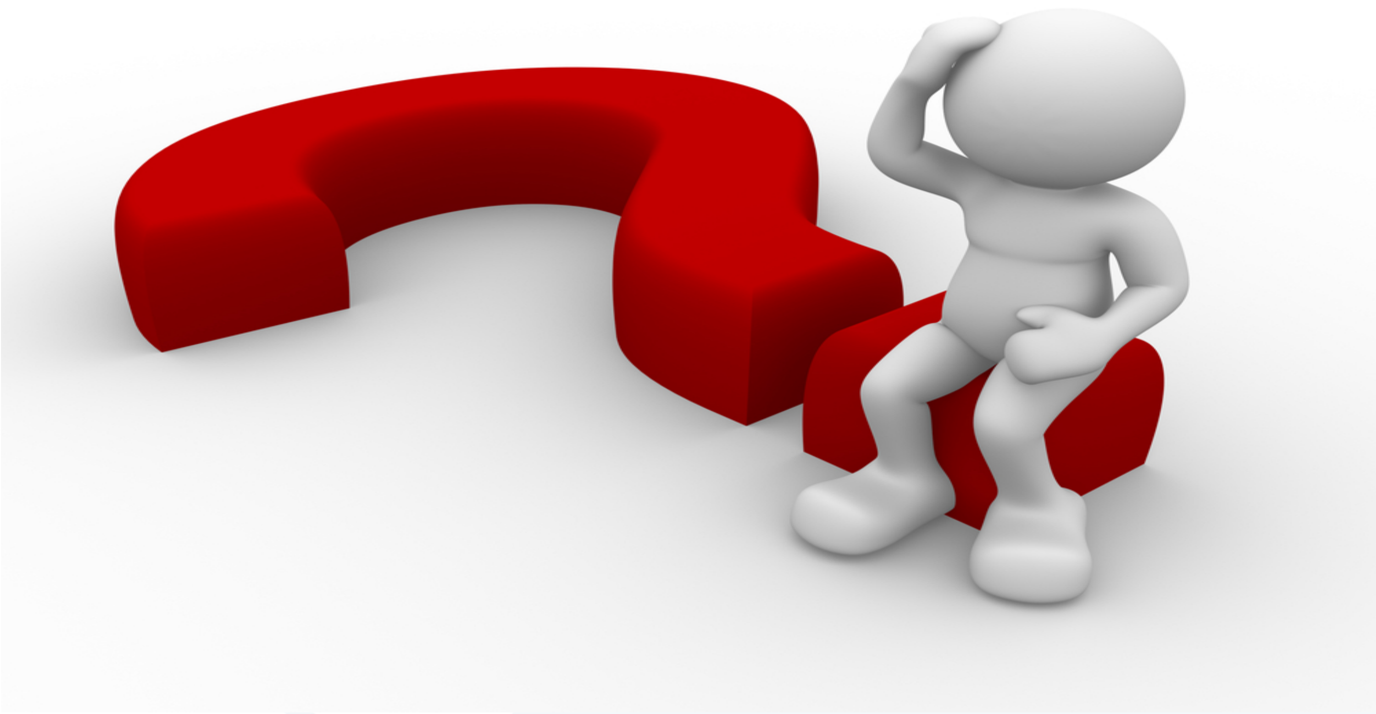
Will Bonds get Crushed?



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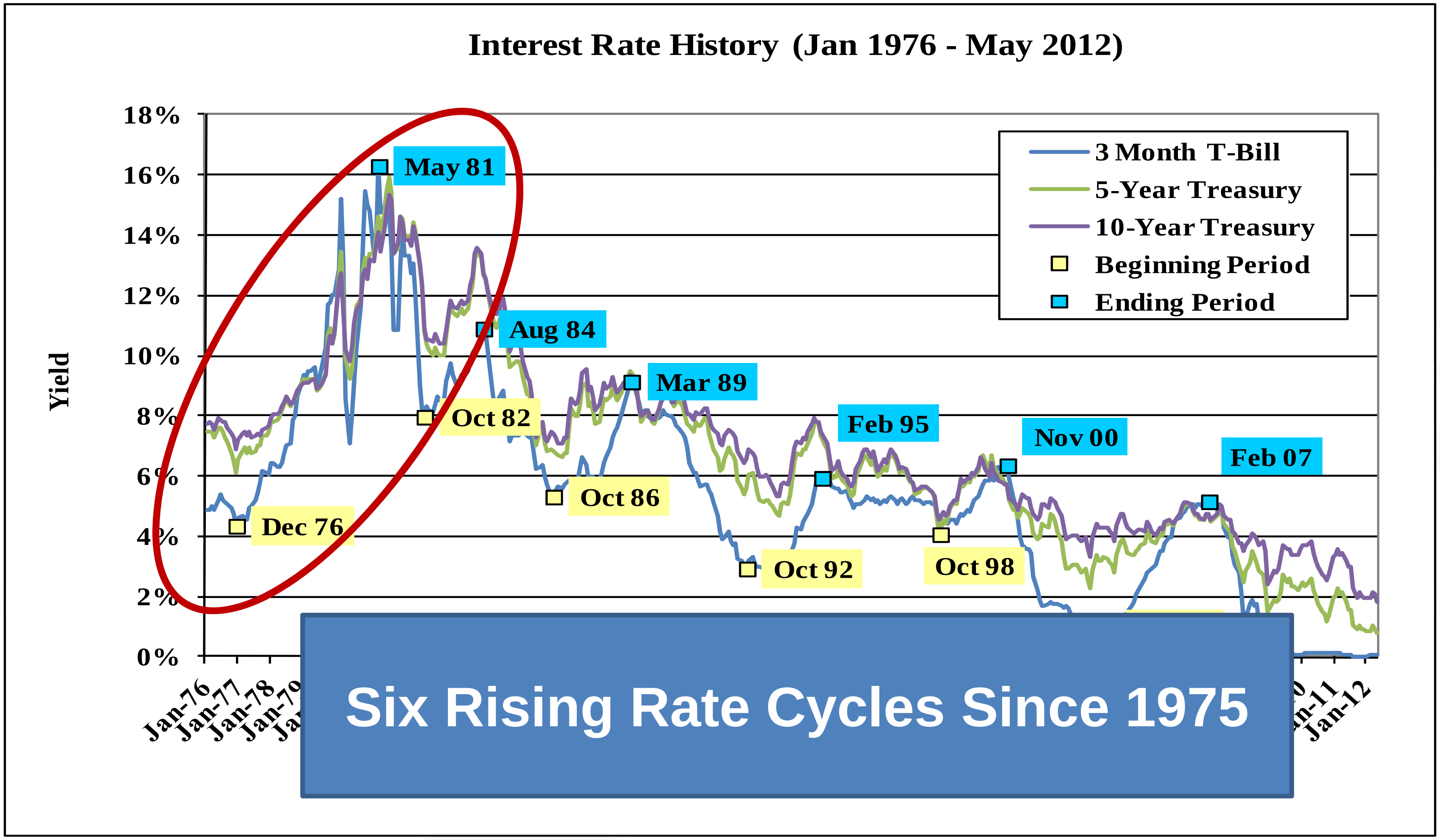
Rates Periodically Rise…



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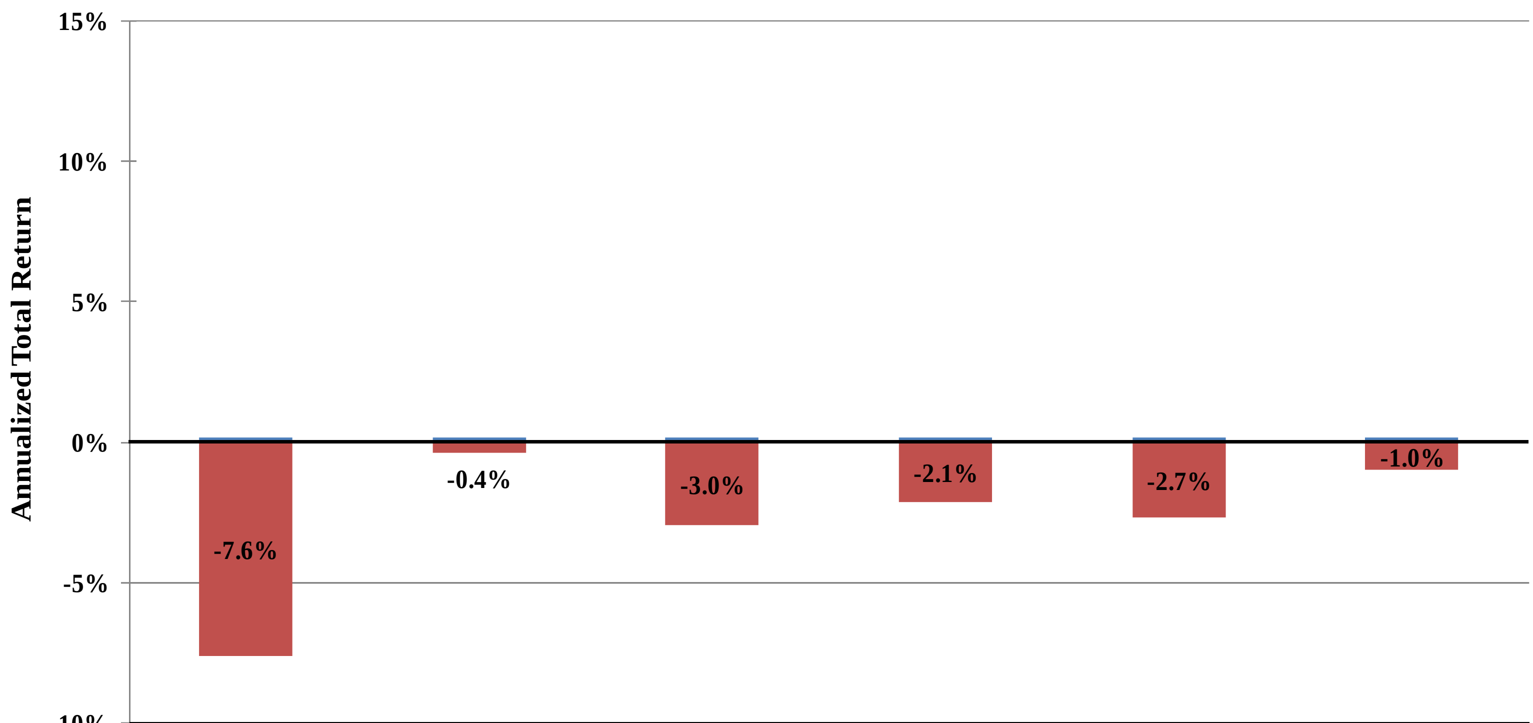
With Surprisingly Positive Results

Price Impact on Barclays Aggregate Bond Returns



	Dec 76 - May 81	Oct 82 - Aug 84	Oct 86 - Mar 89	Oct 92 - Feb 95	Oct 98 - Nov 00	Jan 04 - Feb 07
Price Impact	-7.6%	-0.4%	-3.0%	-2.1%	-2.7%	-1.0%
Yield Impact	10.2%	12.3%	9.2%	6.9%	6.9%	5.1%
Net Impact	2.6%	11.9%	6.2%	4.8%	4.2%	4.1%

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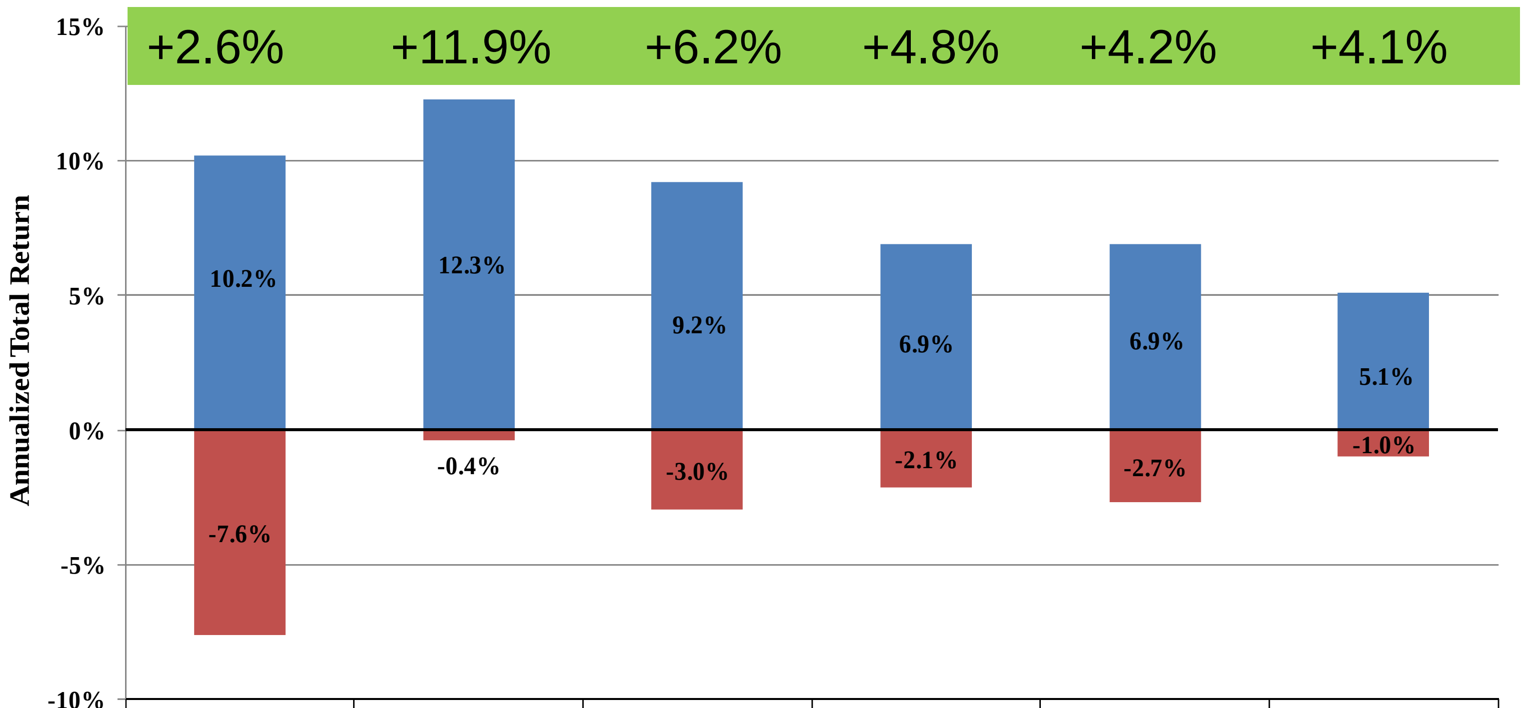
Surprisingly Positive Results

Price Impact on Barclays Aggregate Bond Returns
(assumes monthly coupon reinvestment in the index)



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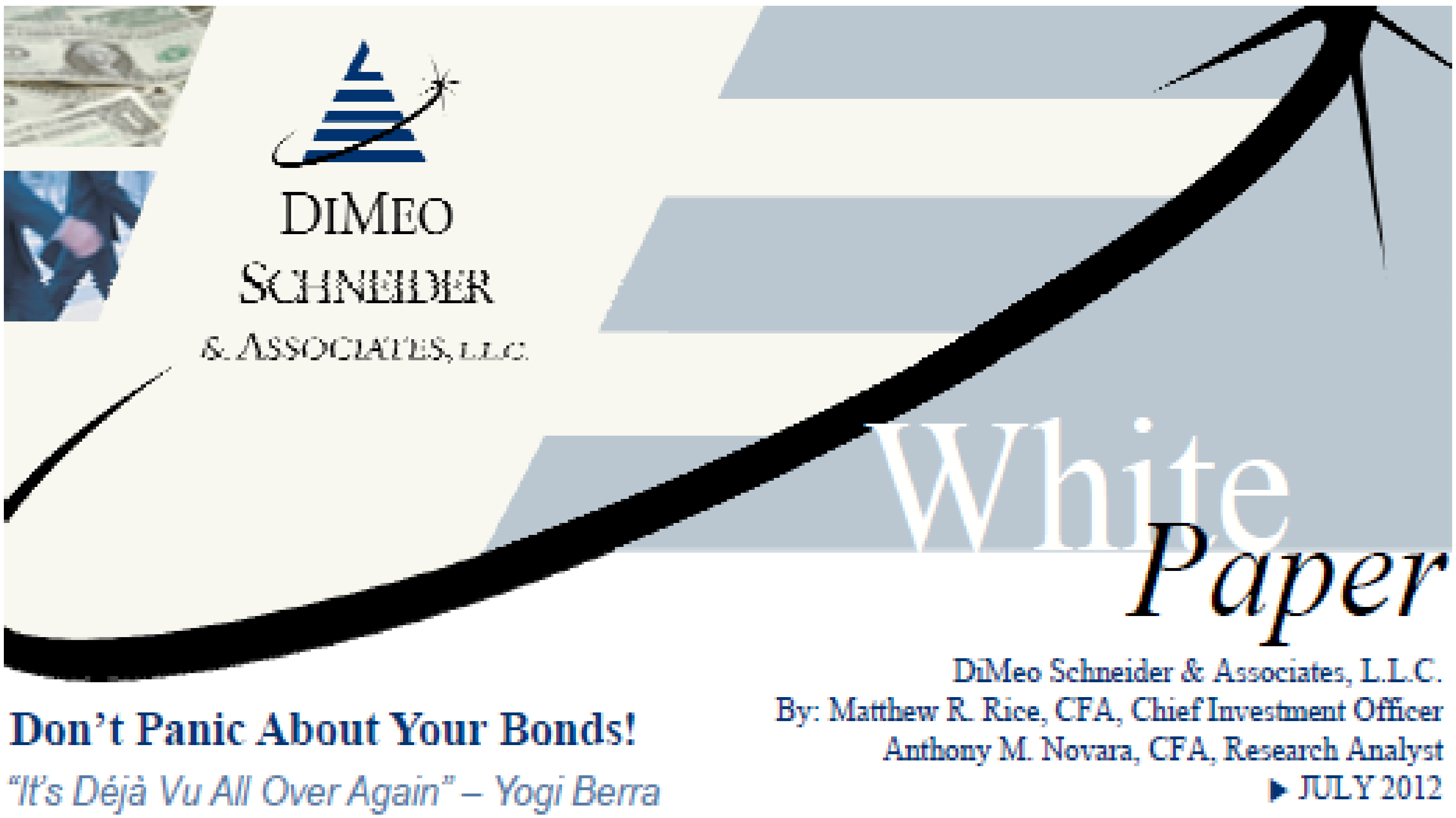
Don’t Panic About Your Bonds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White Paper

DiMeo Schneider & Associates, L.L.C.
By: Matthew R. Rice, CFA, Chief Investment Officer
Anthony M. Novara, CFA, Research Analyst
▶ JULY 2012

Don’t Panic About Your Bonds!

“It’s Déjà Vu All Over Again” – Yogi Berra

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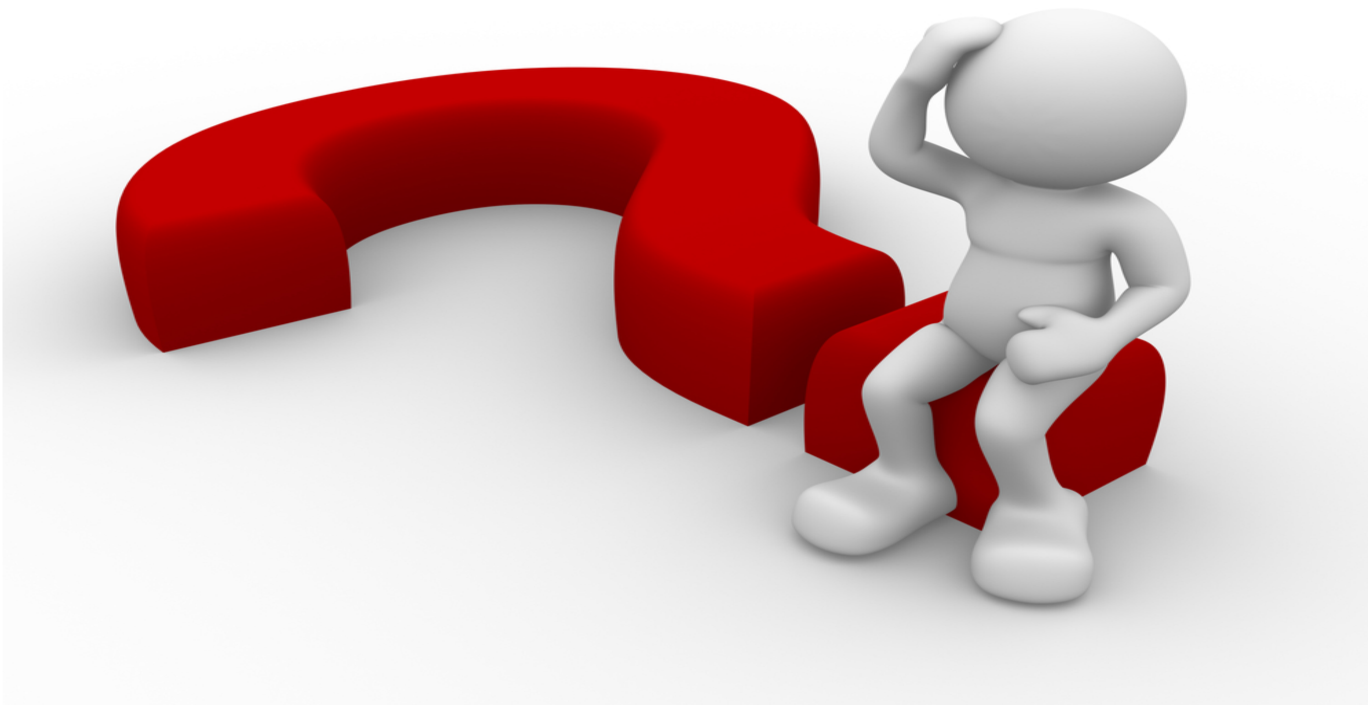
Are You Overly Sensitive About Your… End Point?



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When You "Take the Picture" Matters!

Rolling 3- Year Average

Comparison	3 Yr. Avg. 12/31 2012	3 Yr. Avg. 12/31 2013	3 Yr. Avg. 1/31 2014
MSCI EAFE	**4.0%**	**8.7%**	**6.4%**

$\underbrace{\text{4.0\%} \quad \text{8.7\%}}$

118% Greater in One Year!

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When You "Take the Picture" Matters!

Rolling 3- Year Average

Comparison	3 Yr. Avg. 12/31 2012	3 Yr. Avg. 12/31 2013	3 Yr. Avg. 1/31 2014
S&P 500	**10.9%**	**16.2%**	**13.9%**

14% Lower in One Month!

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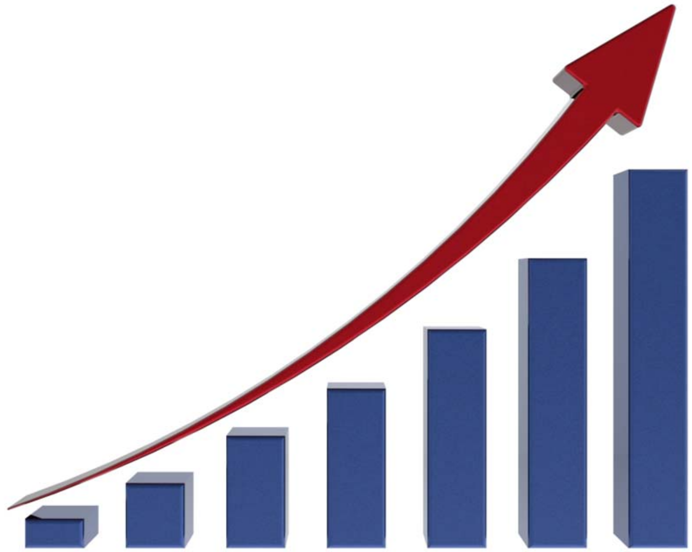
Best Approach

1. Acknowledge Frustration

2. Help Clients Avoid Dangerously Reactive Decisions

3. DiMeo Schneider Resources



4. Great Time to Grow!

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Thank You

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AFAM Capital

Mark Mowrey, CFA

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Innealta
CAPITAL

Innealta Capital Philosophical Overview

By design our solutions are both risk-averse and opportunity seeking, utilizing the unmatched efficiency of the exchange traded fund (ETF) structure to provide exposure to a wide range of asset classes

The tactical strategies, developed over decades of research and practical implementation, utilize the relative stability of fixed income to provide income and capital preservation and to serve as a foundation for opportunistic exposures to equity and other asset classes as warranted by expectations for prospective risk-relative return

The investment objective of all strategies is to provide excess returns relative to the established benchmark over periods of three years and longer, with risk levels commensurate with the level of performance

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The Innealta Tactical ETF Strategies

Innealta's risk-managed investment solutions combine powerful quantitative methodologies with the utility of ETFs

3 Strategy frameworks

10 Portfolios

Strategy framework	Portfolio	Number
Risk-Based	Conservative	2 portfolios
	Moderate	2 portfolios
	Growth	2 portfolios
Rotation	Country Rotation	1 portfolios
	Sector Rotation	2 portfolios
Fixed Income	Fixed Income	1 portfolios

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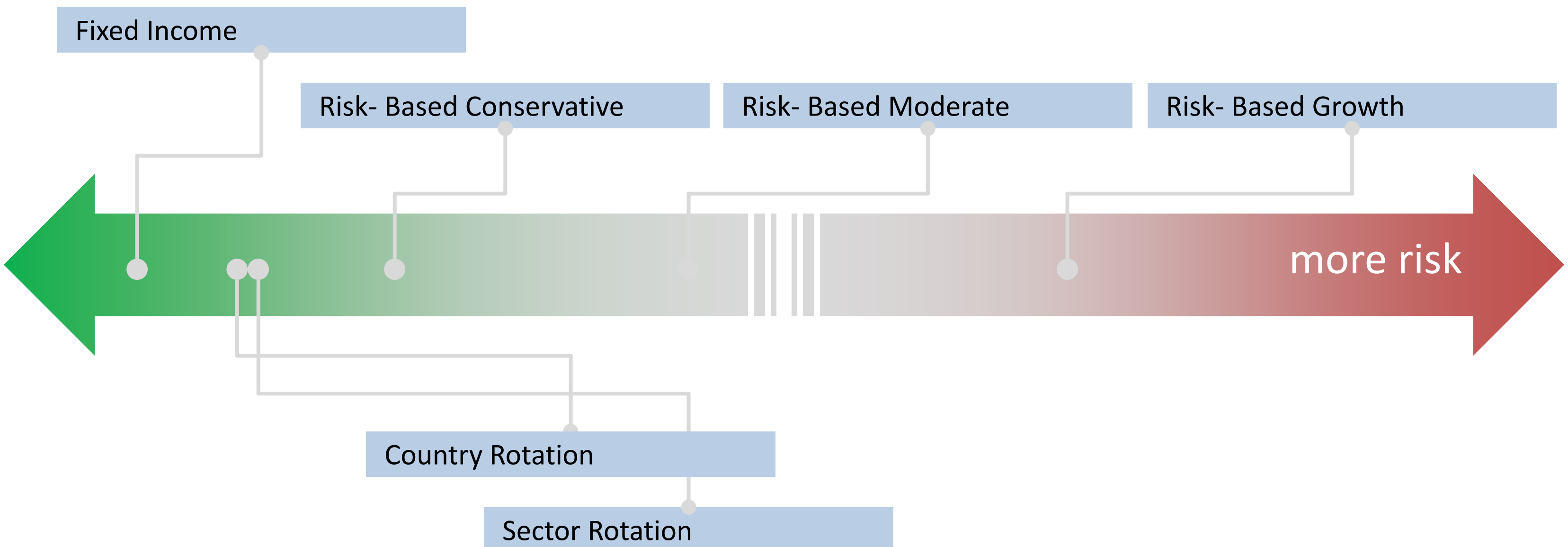
The Innealta Tactical ETF Strategies

The products are predominantly conservative by design



Focus on
Rotation Portfolios

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Rotation Strategy

- Utilizing the Innealta proprietary quantitative framework, the Investment Committee determines the return/risk tradeoff of each non-fixed income exposure relative to our fixed income strategy
  - Discrete decision process between non-fixed income exposures and fixed income
  - All exposures are effectively borrowed (lent) from (to) our Fixed Income Strategy in a proportional manner thus retaining our investment characteristics within the fixed income portion at all times
  - Conservative strategies by design

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Rotation Portfolios

- Core (2 Portfolios)
  - Utilizes unleveraged ETFs
    - Country Rotation
      - Over 30 country equity markets are now considered for investment
    - Sector Rotation
      - 10 U.S. sectors considered for investment
- Opportunity (1 Portfolio)
  - Utilizes leveraged ETFs
    - Sector Rotation
      - Utilizes a similar conceptual use of excess collateral as the Risk Based Opportunity strategies
- Flexible allocation to individual equity market exposures
- Both strategies can deploy alternative exposures as the Investment Committee identifies opportunities across the ETF universe

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Fixed Income Strategy and Portfolio

- This strategy utilizes a classical constrained optimization approach that maximizes expected return subject to various risk constraints across a wide spectrum of fixed income sectors
- Objective is the maximization of expected return per unit of price risk

Coverage of the fixed income universe has expanded greatly in the past few years. And continues to do so.

U.S.	Global	International-Aggregate	International-Regional
Aggregate	Aggregate	Aggregate	Aggregate
Treasuries	Treasuries	Sovereign	Sovereign
TIPS	TIPS	Corporate	Corporate
Agency	Corporate		
Municipal	Floating Rate		
Corporate			
Mortgage			

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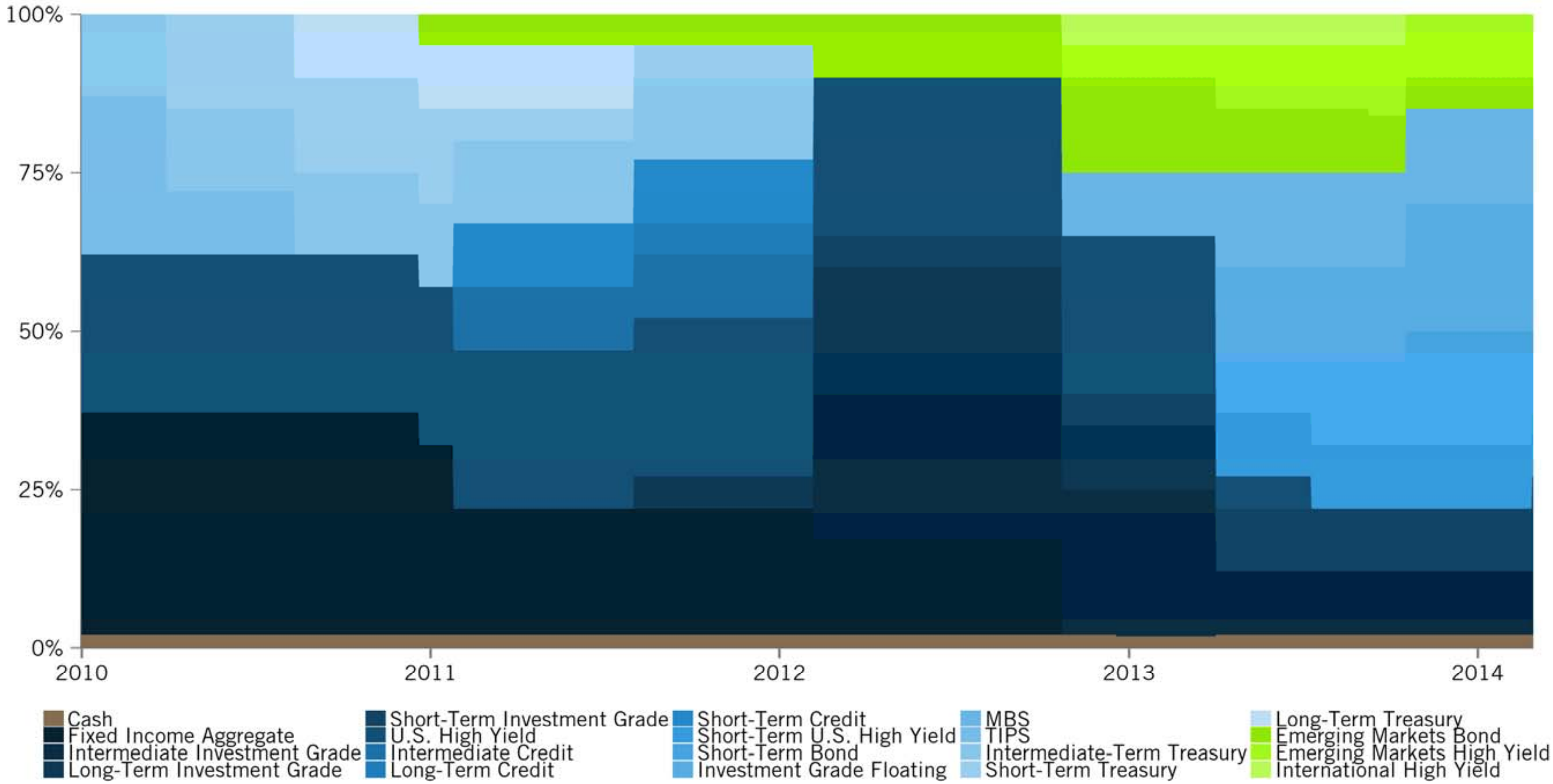
Long-Term Fixed Income Exposure Review

The ongoing expansion in potential fixed income exposures has facilitated this process



From 12.31.09 to 02.28.14. Data on this page are derived from composites of portfolios managed directly by Innealta Capital. Performance data of those portfolios managed and/or otherwise traded by partners of Innealta Capital may differ greatly from these data. SOURCE: Innealta Capital

Cyclical Tactical Asset Allocation Framework

This framework assists the Investment Committee in altering equity/fixed income exposures in the Risk-Based and the Rotation strategies. Levels and dynamics of metrics are aggregated in a manner that enables the Investment Committee to produce composite scores that reflect the investment attractiveness of each equity exposure relative to fixed income. The genesis of the framework began over 20 years ago and is continuously improving. The framework consist of four major dimensions.

Distributional Characteristics/Risk

Fundamental

Macroeconomic

Behavioral/Technical

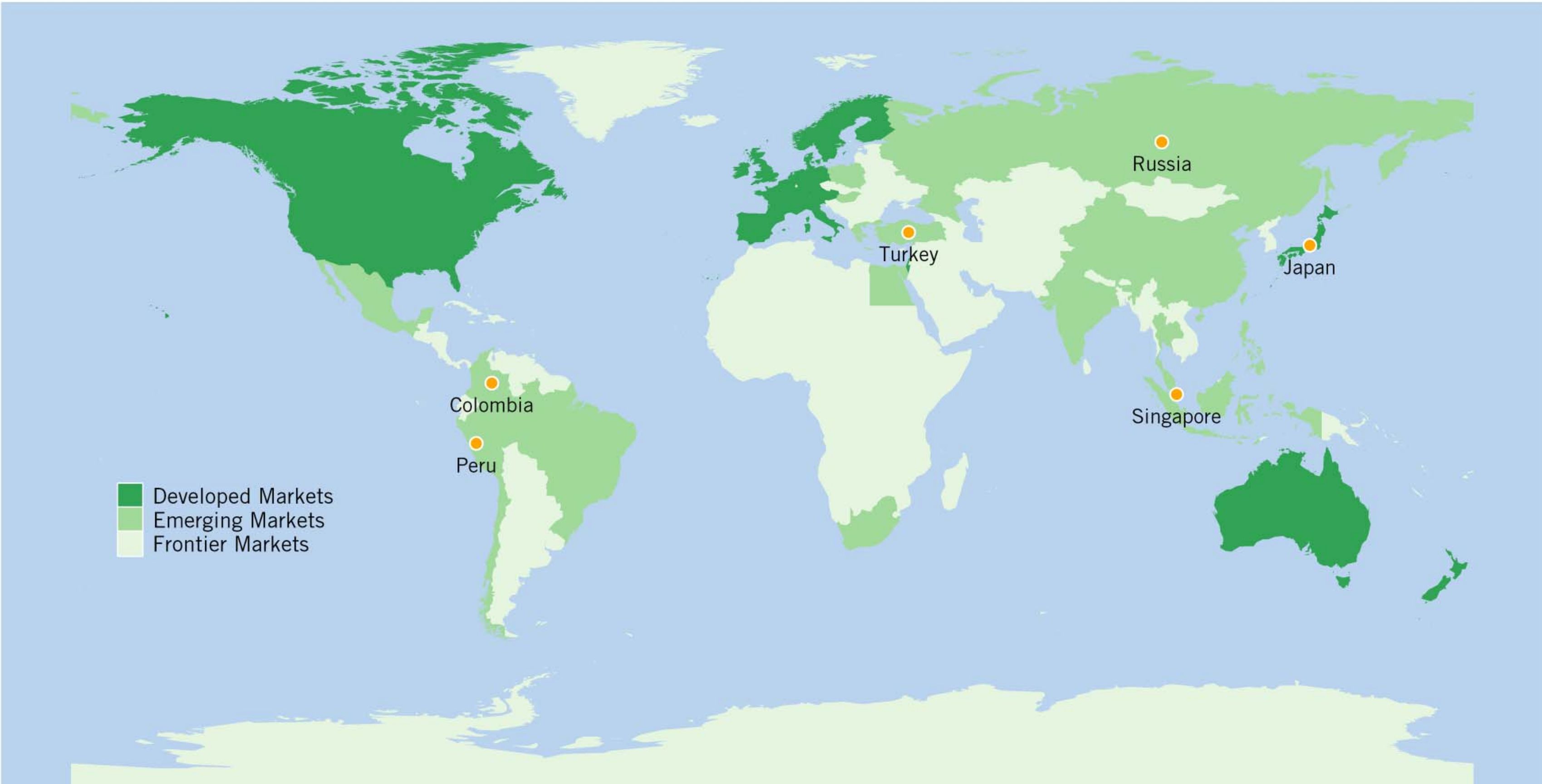
Rotation Portfolios: Investible Equity Markets

Country ETFs	
Australia	Korea
Austria	Luxembourg
Belgium	Malaysia
Brazil	Mexico
Canada	Netherlands
China	New Zealand
Colombia	Norway
Czech Republic	Peru
Egypt	Philippines
France	Poland
Germany	Russia
Greece	Singapore
Hong Kong	South Africa
Hungary	Spain
India	Sweden
Indonesia	Switzerland
Ireland	Taiwan
Israel	Thailand
Italy	Turkey
Japan	United Kingdom

U.S. Equity Sector ETFs	
Consumer Discretionary	Industrials
Consumer Staples	Information Technology
Energy	Materials
Financials	Telecom Services
Health Care	Utilities

Rotation Portfolios: Investible Equity Markets

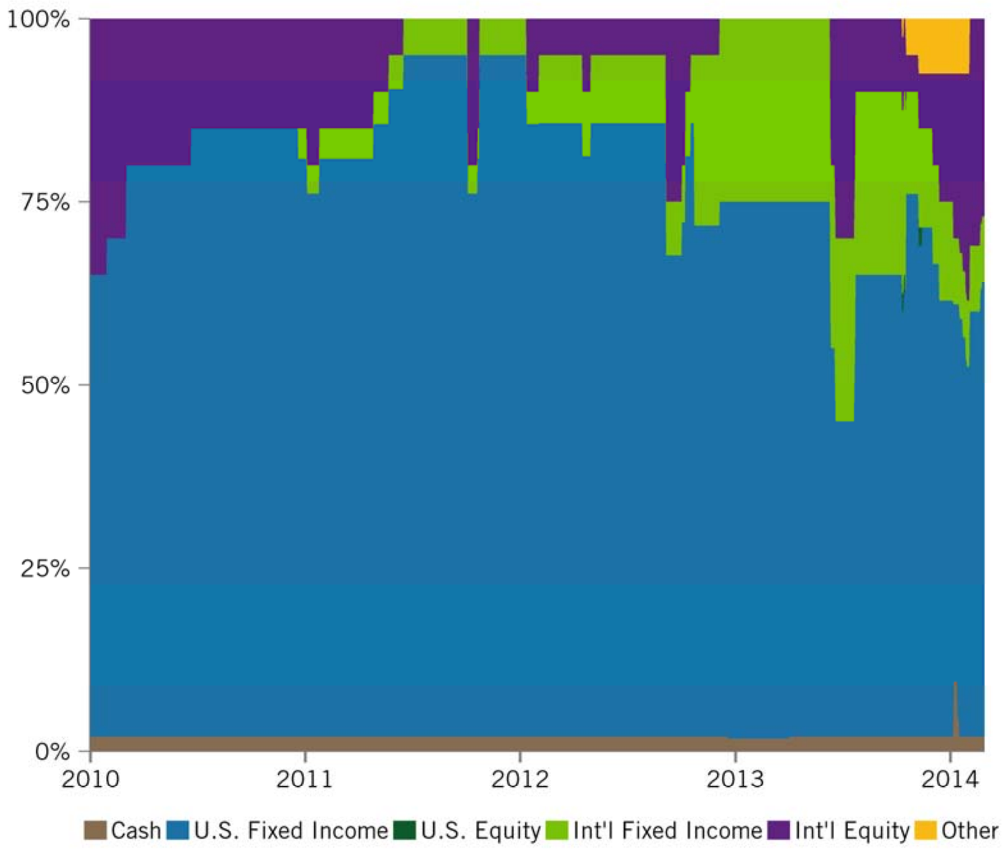
The number of potential exposures continues to expand as the ETF marketplace matures



Data are as of 02.28.2014. Dots indicate current portfolio exposures. MSCI Global Investable Market country classification. SOURCE: Innealta Capital

Country Rotation Portfolio Historical Allocation

The Strategy seeks to gather a substantial portion of equity-like total return over time, while avoiding a substantial portion of equity-like risk via targeted exposures within fixed income and tactical trades in equity



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Country Rotation Strategy: Component Contribution

- To analyze performance within each asset class, we can review the portfolio "contribution" of each, which is weighted by the portion of the portfolio allocated to that class
- The review effectively assumes the rest of the portfolio is invested in cash
- Versus an individual benchmark representing that asset class, this take makes the comparison a bit more challenging

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Country Rotation Portfolio: Equity Contribution

Within equity, the contribution to date has lagged the total return of the standalone benchmark. But that hasn't always been the case. And that's only part of the story...

Country Rotation Portfolio: Equity Contribution

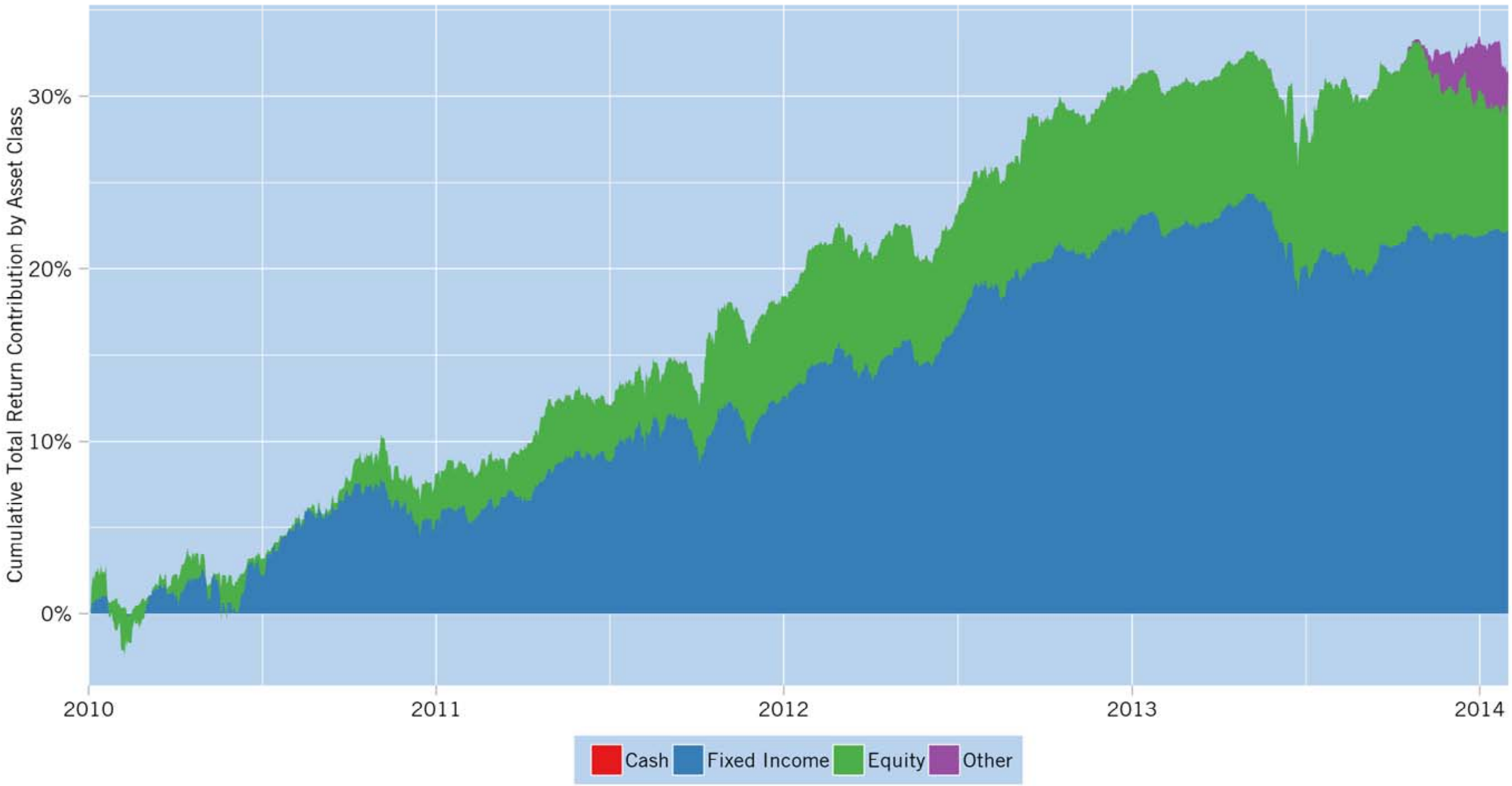
Mostly, equity exposures within the portfolio have proved additive to long-term return.
And, elsewise...

Country Rotation Portfolio: Fixed Income Contribution

...the portfolio was invested mostly in fixed income when not in equity. Contribution within fixed income compares favorably to the standalone benchmark over the long term

Country Rotation Portfolio: Contribution to Total Return

We can pull the two separate views together to show that, over the long run, the Strategy has seen positive contribution from all asset classes, with fixed income comprising the largest portion



From 01.01.10 to 01.31.14. Data on this page are derived from composites of portfolios managed directly by Innealta Capital and are, unless otherwise stated, gross-of-fees. Performance data of those portfolios managed and/or otherwise traded by partners of Innealta Capital may differ greatly from these data. SOURCE: Innealta Capital

Rotation Portfolios Return: Standard Deviation

Meantime, portfolio-level volatility is kept in check by a methodology that favors attractive risk-reward scenarios

Innealta Country Rotation Portfolio Long-Term Performance

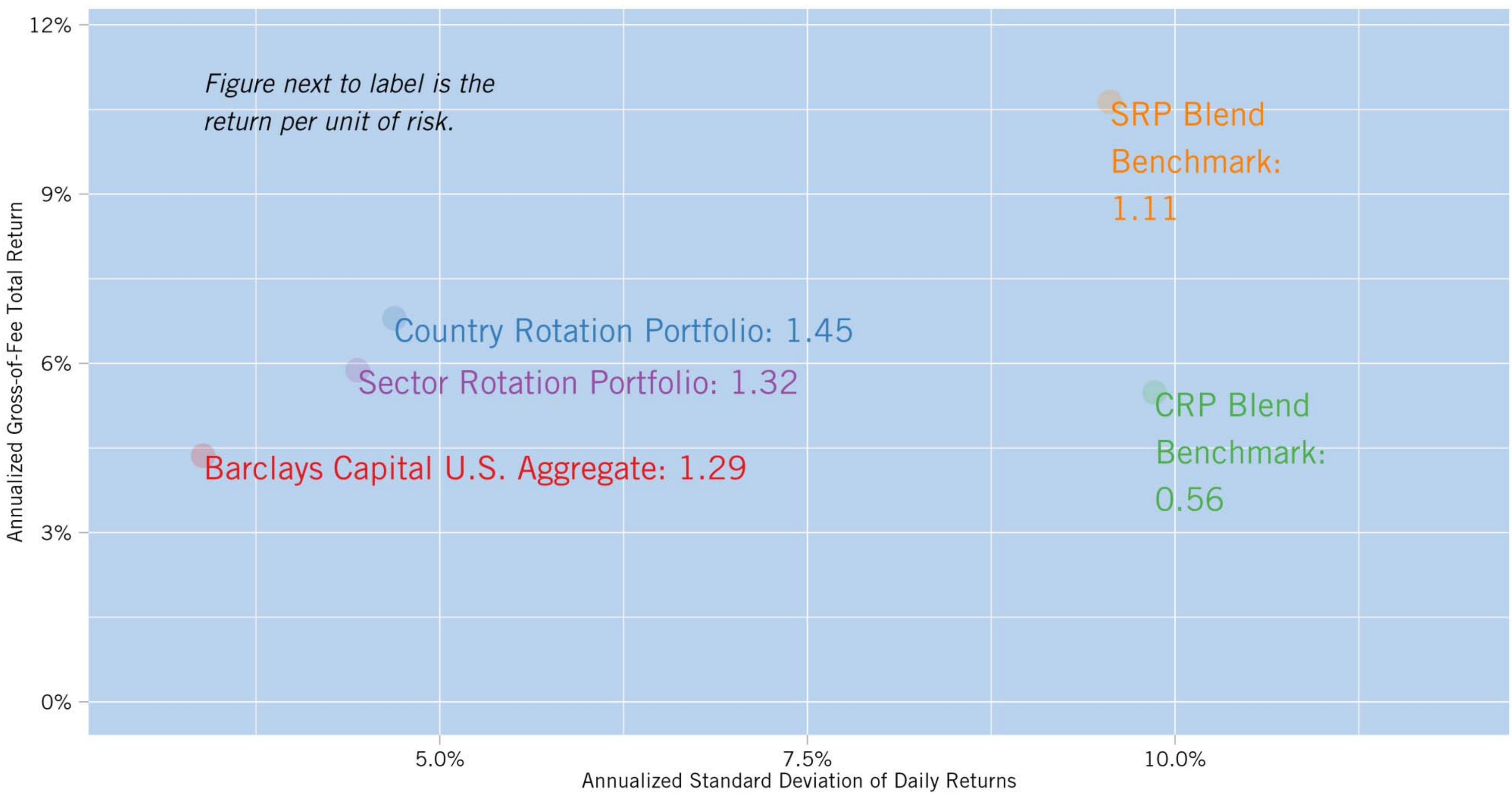
Against our preferred benchmark, the Barclays U.S. Aggregate, the performance of the Strategy compares well both on an absolute and a risk-adjusted basis

Innealta Country Rotation Portfolio Long-Term Performance

We can compare the performance of the Strategy against a blended allocation as well, to the same conclusion

Rotation Portfolios Return, versus Risk

Return / Risk compares favorably both to our preferred benchmark and to blended allocations

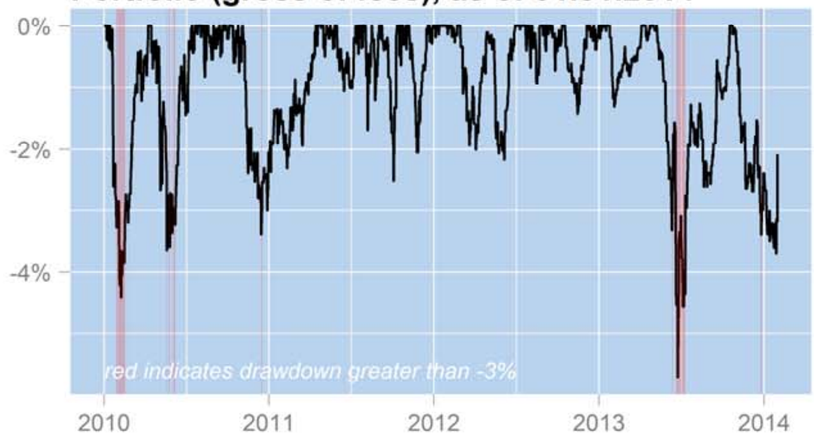


From 12.31.2009 to 01.31.2014. CRP Blend = 60% MSCI ACWI ex. U.S. / 40% BarCap U.S. Aggregate, SRP Blend = 60% S&P 500 / 40% BarCap U.S. Aggregate. Trailing annualized data since inception on 12.31.2009. SOURCE: Innealta Capital

Innealta Country Rotation Portfolio: Drawdown Detail

Drawdown characteristics compare favorably both to the primary benchmark...

Portfolio (gross of fees), as of 01.31.2014



Benchmark

Top Benchmark Drawdowns

	Days	Benchmark Drawdown	Portfolio Drawdown	Portfolio Return
05.03.13 to 01.31.14	273	-4.87	-5.70	-1.58
11.05.10 to 05.05.11	181	-3.31	-3.38	1.23
09.23.11 to 12.16.11	84	-1.80	-2.00	3.27
03.07.12 to 04.10.12	34	-1.25	-0.92	-0.36
07.26.12 to 09.25.12	61	-1.21	-0.43	2.63

Benchmark: Barclays Capital U.S. Aggregate Bond TR

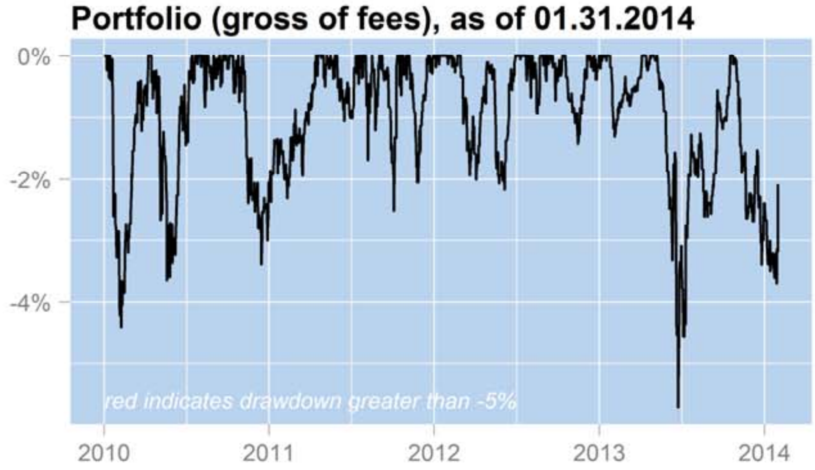
Top Portfolio Drawdowns

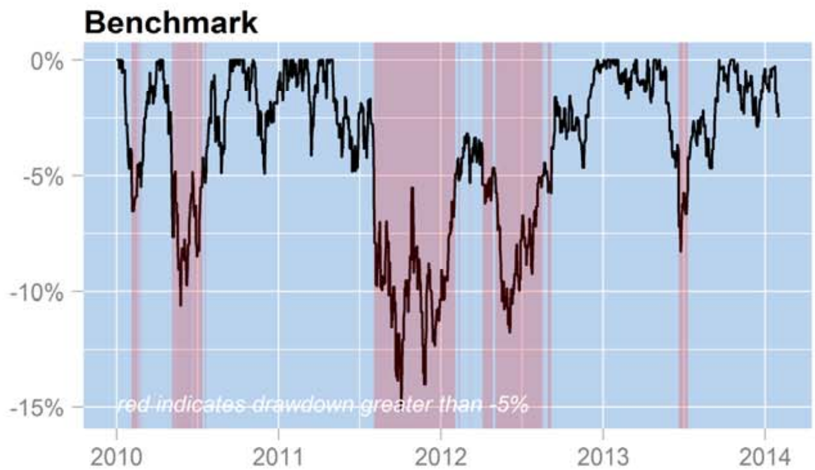
	Days	Portfolio Drawdown	Benchmark Drawdown	Benchmark Return
05.09.13 to 10.17.13	161	-5.70	-4.47	-2.00
01.15.10 to 04.09.10	84	-4.40	-0.01	0.68
10.24.13 to 01.31.14	99	-3.69	-1.16	0.40
04.16.10 to 07.14.10	89	-3.64	0.10	3.30
11.05.10 to 04.15.11	161	-3.38	-3.31	-1.23

In the first table above, drawdown is the length of time the benchmark requires to return to breakeven after an initial loss. Portfolio drawdowns are calculated from the start of the relevant period. Portfolio return is the total return of the portfolio during the benchmark's drawdown. In the second table the roles are reversed; the drawdown periods are for the portfolio.

Innealta Country Rotation Portfolio: Drawdown Detail

...and the blended benchmark





Top Benchmark Drawdowns

	Days	Benchmark Drawdown	Portfolio Drawdown	Portfolio Return
05.03.11 to 12.18.12	595	-15.16	-0.13	17.25
04.16.10 to 09.14.10	151	-10.58	-3.64	2.74
05.09.13 to 09.19.13	133	-8.25	-5.70	-0.55
01.12.10 to 04.07.10	85	-6.53	-4.26	-0.30
11.05.10 to 01.13.11	69	-4.91	-3.38	-1.37

Benchmark: 40% Barclays Capital U.S. Aggregate Bond TR / 60% MSCI All-Country World Index ex. U.S. net

Top Portfolio Drawdowns

	Days	Portfolio Drawdown	Benchmark Drawdown	Benchmark Return
05.09.13 to 10.17.13	161	-5.70	-8.25	1.67
01.15.10 to 04.09.10	84	-4.40	-6.52	0.41
10.24.13 to 01.31.14	99	-3.69	-2.46	-2.09
04.16.10 to 07.14.10	89	-3.64	-10.58	-4.22
11.05.10 to 04.15.11	161	-3.38	-4.91	2.14

In the first table above, drawdown is the length of time the benchmark requires to return to breakeven after an initial loss. Portfolio drawdowns are calculated from the start of the relevant period. Portfolio return is the total return of the portfolio during the benchmark's drawdown. In the second table the roles are reversed; the drawdown periods are for the portfolio.

Rotation Strategies: Utilization

Reiterating the goals of the Strategies:

- Utilize the relative stability of fixed income to provide income and capital preservation
- Opportunistically exposure the portfolio to equity and other asset classes as warranted by expectations for prospective risk-relative return

We believe the Strategies fit well as a “20-Percent” solution for otherwise blended allocations as:

- Means to modulate the allocation to riskier assets over time, based on what we believe is a defensible approach to assessing risk-relative potential return
- Allocation that has the potential to deliver a substantial portion of equity-like returns, while assuming substantially less risk

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Disclosures

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ETFs are subject to risks similar to those of stocks, such as market risk, and investors that have their funds invested in accordance with the portfolios may experience losses. Additionally, fixed income ETFs are subject to interest rate risk which is the risk that debt securities in a portfolio will decline in value because of increases in market interest rates.

Investments in foreign investments may incur greater risks than domestic investments.

Past performance is no guarantee of future results.

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Disclosures

The Sector Rotation Core Portfolio blended index-based benchmark is comprised of the Barclays Capital U.S. Aggregate Bond TR Index. The ETF-based benchmark is comprised of Vanguard Total Bond Market (BND).

The Country Rotation Portfolio blended index-based benchmark is comprised of the Barclays Capital U.S. Aggregate Bond TR Index. The ETF-based benchmark is comprised of Vanguard Total Bond Market (BND).

The Fixed Income Rotation Portfolio blended index-based benchmark is comprised of the Barclays Capital U.S. Aggregate Bond TR Index. The ETF-based benchmark is comprised of Vanguard Total Bond Market (BND).

The Risk-Based Core Conservative Portfolio blended index-based benchmark is comprised of 60% Barclays Capital U.S. Aggregate Bond TR / 40% MSCI All-Country World Index net. The ETF-based benchmark is comprised of 60% Vanguard Total Bond Market (BND) / 40% iShares MSCI ACWI Index Fund (ACWI).

The Risk-Based Core Moderate Portfolio blended index-based benchmark is comprised of 40% Barclays Capital U.S. Aggregate Bond TR / 60% MSCI All-Country World Index net. The ETF-based benchmark is comprised of 40% Vanguard Total Bond Market (BND) / 60% iShares MSCI ACWI Index Fund (ACWI).

The Risk-Based Core Growth Portfolio blended index-based benchmark is comprised of 20% Barclays Capital U.S. Aggregate Bond TR / 80% MSCI All-Country World Index net. The ETF-based benchmark is comprised of 20% Vanguard Total Bond Market (BND) / 80% iShares MSCI ACWI Index Fund (ACWI).

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