

# INVESTMENT PROPOSAL

*CLS Smart ETF*  
*Risk Budget 40 - Moderately Conservative*



CUSTOMIZED FOR:

PRESENTED BY:



17605 Wright St. Omaha, NE 68130

888.455.4244 | CLSinvest.com





## About CLS Investments

In 1972, W. Patrick Clarke began his career as a stockbroker at a time when others were struggling to survive in that profession. In 1975, he left that post to focus on working with individual investors to develop highly customized financial plans and investment management options. When other financial planners began expressing a need for this type of individualized approach, he began to partner with them as a third party asset manager. In 1989, Mr. Clarke was the majority partner in creating the independent asset allocation firm Clarke Lanzen Skalla Investment Firm, LLC. The company was founded on the lessons learned by Mr. Clarke as both a financial advisor and an individual investor. Under Mr. Clarke's direction, that company would eventually become the money management firm CLS Investments, LLC.

Today, CLS is an ETF strategist working with more than 6,300 financial advisors to manage over 45,000 investor portfolios. With nearly \$9 billion in assets under management and as a part of NorthStar Financial Services Group, LLC, CLS has the investment experience to help advisors and individual investors achieve financial success.

## CLS's Investment Team

CLS's Investment Team is responsible for the day-to-day management of CLS's investment portfolios, as well as providing ongoing support and guidance to CLS's advisors and investors. The team is comprised of six individuals who hold the Chartered Financial Analyst (CFA) designation, one Chartered Market Technician (CMT), one Certified Investment Management Analyst (CIMA®), and two Chartered Alternative Investment Analyst (CAIA).

<b>Rusty Vanneman, CFA, CMT</b> President & Chief Investment Officer	<b>Marc Pfeffer</b> Chief Investment Strategist	<b>Joe Smith, CFA</b> Deputy Chief Investment Officer	<b>Grant Engelbart, CFA, CAIA</b> Director of Research & Senior Portfolio Manager
<b>Kostya Etus, CFA</b> Senior Portfolio Manager	<b>Case Eichenberger, CIMA®</b> Senior Client Portfolio Manager	<b>Jeovany Zelaya</b> Client Portfolio Manager	<b>Shana Sissel, CAIA</b> Portfolio Manager
<b>Jackson Lee, CFA</b> Associate Quantitative Portfolio Manager	<b>Gene Frerichs</b> Senior Performance Analyst	<b>Michael Hadden</b> Investment Research Analyst	<b>Aleck Liu</b> Junior Investment Research Analyst
	<b>Dustin Dorhout</b> Junior Investment Research Analyst	<b>Patty Colombe</b> Administrative Coordinator	

CLS makes a significant investment in leading investment research, performance measurement, and risk management tools to ensure they have access to valuable information necessary for prudent asset management. These leading industry tools include:

- Morningstar Direct
- Bloomberg
- MATLAB
- Frontline Solver
- Value Line
- FactSet
- Ned Davis Research
- ETF Provider Research
- Trading Desk Research
- Market-Q

## Account Detail

Advisor Name:

Client Name:

Registration Type:

Investment Amount:

## Investment Outcome



### Accumulation

Your portfolio will be focused on total return, meaning growth of value through interest, capital gains, and dividends proportionate to your risk tolerance.

For investors whose primary investing objective is to increase portfolio value over the long term, CLS builds balanced, global portfolios constrained by its Risk Budgeting Methodology. This means CLS accesses **all areas of the domestic and international markets** to find the best opportunities that fit within your Risk Budget. CLS employs a consistent portfolio management process that allows for flexibility and customization to your specific accumulation goals.

Your CLS Accumulation portfolio is actively managed, meaning CLS makes adjustments to it in an effort to maintain an appropriate risk level and take advantage of opportunities in the market.

## Investment Strategy

### CLS Smart ETF Risk Budget 40 Moderately Conservative

Designed to actively seek intermediate- and long-term capital appreciation appropriate for your Risk Budget, this strategy focuses on total return and seeks allocation to smart beta and active ETFs from multiple providers.

CLS typically allocates its Smart ETF Models among 12 to 18 globally diversified ETFs from multiple providers, according to your individual Risk Budget. Portfolios will mostly hold smart beta and active ETFs, with some smaller satellite positions in ETFs focused on specific sectors, countries, and alternative assets.

### A Better Investor Experience through Smart Beta

Traditionally, ETFs were designed to track common, broad market indices such as the S&P 500. More recently, however, new indices (smart beta ETFs) have been created that are designed to behave differently than the traditional, market-cap weighted indices. Smart beta ETFs utilize commonly known investment strategies or risk factors, and offer a set of institutional quality tools for managing Risk-Budgeted portfolios.

Factors, which are broad, persistent drivers of risk and return are an important component of smart beta. CLS utilizes factor investing to fortify our traditional portfolio management, as we believe this helps produce stronger investment results with a greater degree of consistency over time. The seven factors CLS tends to emphasize are:



By emphasizing these factors and selecting smart beta ETFs from its premier partner ETF providers (i.e., Deutsche Asset Management, L.P., J.P. Morgan Asset Management, PIMCO, and PowerShares by Invesco), CLS's Smart ETF Models are designed to add value and provide smoother investment results over time.

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## The Benefits of ETFs

Since they were launched in 1993, ETFs have gained tremendous popularity. CLS began using ETFs in the late 1990s and is now one of the largest active money managers of this versatile investment vehicle<sup>1</sup>. CLS considers ETFs to be an ideal complement to its Risk Budgeting Methodology because of their multitude of potential benefits:

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

Transparency

Diversification

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

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

Intra-Day Trading

Stable Market & Risk Exposure

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

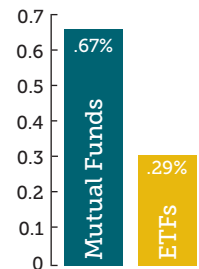
Because ETFs do not have minimums, front-end loads, or redemption fees, they can offer significant cost savings.

Lower Cost

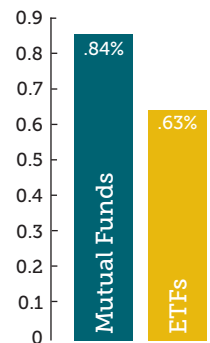
Tax Efficiency

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

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



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



<sup>1</sup>Morningstar, as of 3/31/16; <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 US. With this information, a dollar-weighted average of expense ratios was calculated for both mutual funds and ETFs. The results are displayed in the graph.; <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 US. With this information, a dollar-weighted average of tax expenses was calculated for both mutual funds and ETFs. The results are displayed in the graph. For information regarding how post-tax returns were calculated, refer to Morningstar directly.

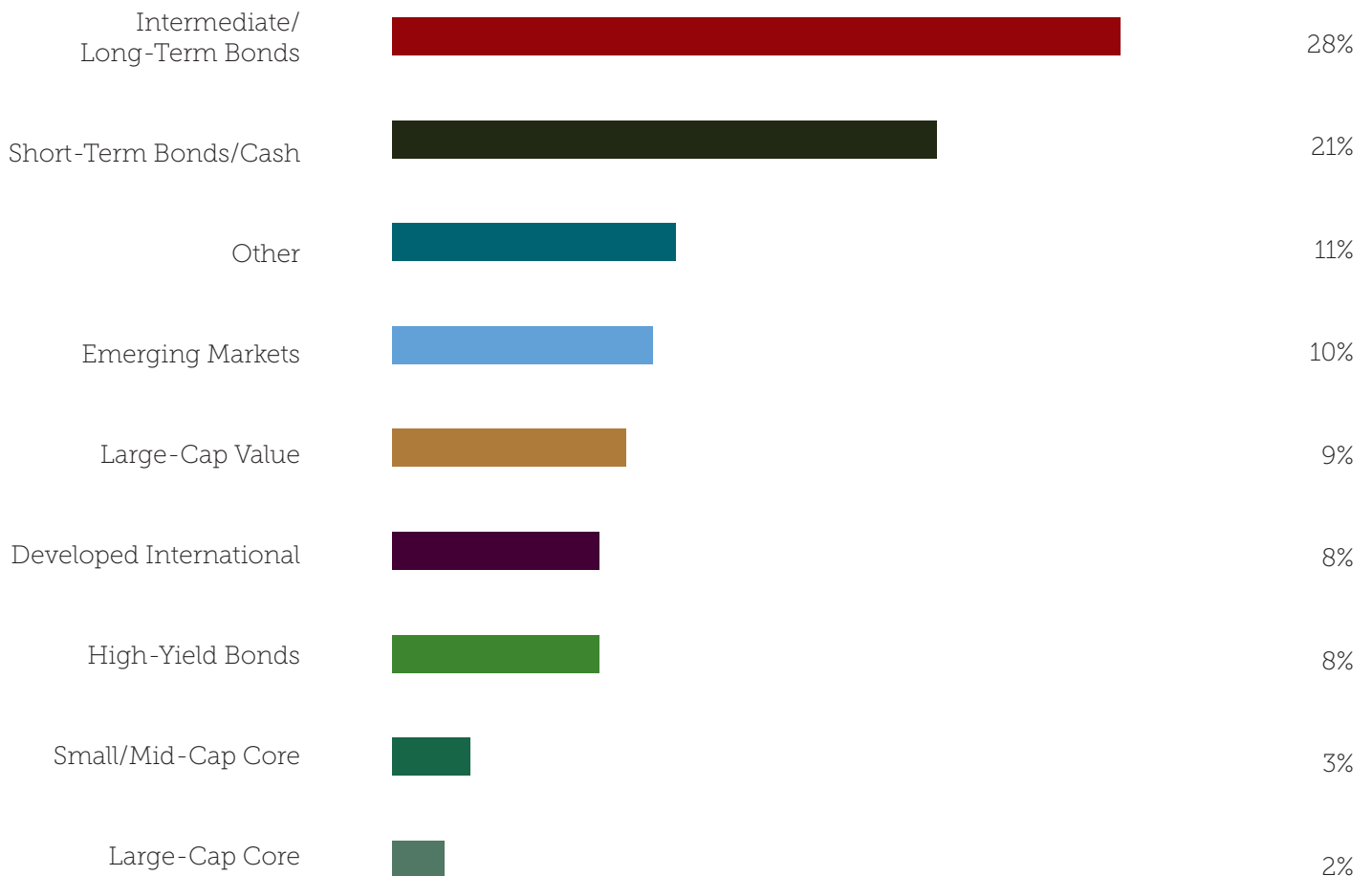


## Allocation Overview

### Portfolio Allocation: Asset Categories



### Portfolio Allocation: Asset Class Segments



# INVESTMENT PROPOSAL

## Holdings Summary

Investment Portfolio	Ticker	Allocation %
JPMorgan Ultra-Short Income ETF	JPST	16%
First Trust TCWOppportunistic Fxd Inc ETF	FIXD	14%
PIMCO Active Bond ETF	BOND	14%
First Trust Senior Loan ETF	FTSL	8%
PIMCO RAFI Dyn Mlt-Fctr Emrg Mkts Eq ETF	MFEM	8%
First Trust Global Tact Cmdty Strat ETF	FTGC	7%
Xtrackers FTSE Dev ex US Cmprhsv Fac ETF	DEEF	6%
JPMorgan Diversified Alternative ETF	JPHF	6%
Invesco Russell Top 200 Pure Value ETF	PXLV	5%
Xtrackers Russell 1000 US QARP ETF	QARP	4%
PIMCO Enhanced Short Maturity Active ETF	MINT	3%
JPMorgan Divers Ret US Small Cap Eq ETF	JPSE	3%
Xtrackers MSCI All China Equity ETF	CN	2%
Cash		2%
JPMorgan Diversified Return US Eq ETF	JPUS	2%
TOTAL		100%

*Any sample allocations displayed in this work are meant to serve as examples. Actual holdings may differ. This information should not be considered investment advice.*





## Our Investment Philosophy & Process

The term “risk” as it relates to investing may have negative or scary connotations in your mind. And it is true that riskier assets have a greater chance of decreasing in value at some point. Yet, taking on risk in the investment world can also bring reward, as riskier investments tend to have greater potential to significantly increase in value. The key is to find a balance between lower risk and higher risk investments that is appropriate for your specific investment objectives.

That’s where CLS comes in – CLS has been building individualized, balanced, global portfolios since 1989. CLS’s Risk Budgeting Methodology is the foundation of its portfolio construction process. CLS starts by defining your personalized Risk Budget, based on your unique investing time horizon and specific investment goals. This budget, which is expressed as a percentage of the risk of a well-diversified, global equity portfolio, represents the amount of risk you are comfortable taking on in exchange for potential returns. Your individual Risk Budget is the risk level at which CLS manages your portfolio.

CLS holds three important beliefs about investment risk that guide us in building your portfolio:

- 1 | All investors have a capacity to bear risk, and the best way to manage risk is to measure it, rather than relying on a traditional stock-to-bond ratio.
- 2 | Over the long term, investors are rewarded for bearing risk; having too little risk hurts investor returns.
- 3 | Investment methodologies should be designed to pair a disciplined risk management system with an active and flexible approach.

### The Risk Budget

A Risk Budget is essentially a percentage of the risk of a diversified, global equity portfolio. CLS ties the Risk Budget to the global stock market, which is a benchmark that can be used to evaluate the performance of your portfolio. The global stock market is a blended index, comprised of about half domestic equity and about half international equity. As an example, if your Risk Budget is 80, CLS will manage your portfolio to take approximately 80% of the risk of the global stock market at all times. You should also expect that over time, the long-term performance goal for your portfolio is to achieve at least 80% of the return of the global stock market.

### CLS’s Global Philosophy

CLS’s philosophy of pursuing global portfolio diversification 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 CLS the best opportunity to adapt portfolios when markets change, as certain asset classes are likely to perform well even when others are not.

## Discipline & Flexibility

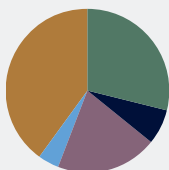
CLS's methodology is unique in that it pairs a disciplined risk management system with a flexible approach to asset allocation, thus enabling the CLS Portfolio Management Team to create active portfolios targeting a particular level of risk. Many investment managers use a stock-to-bond ratio approach to control risk with a portfolio, but CLS does not believe this method is a precise enough measure of actual portfolio risk.

For example, what if the equity market risk increases due to high valuations? CLS's active asset allocation would reduce exposure to overvalued equities while adding exposure to undervalued equities and fixed income to keep risk consistent. On the other hand, a static stock-to-bond approach would end up taking on too much risk.

### CLS's ACTIVE ASSET ALLOCATION

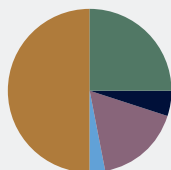
CLS's active asset allocation adjusts to account for changing market conditions. As a result, the relative risk in your portfolio should remain fairly constant over time.

Normal U.S. Valuations



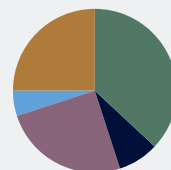
Risk Budget 65

Higher U.S. Valuations



Risk Budget 65

Lower U.S. Valuations

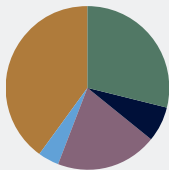


Risk Budget 65

### STATIC ASSET ALLOCATION

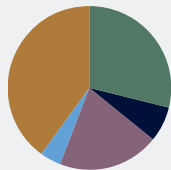
A static asset allocation keeps the portfolio's allocation constant from year-to-year, even though risk in the market is changing. As a result, the portfolio's level of risk may change each year and may not be in line with your Risk Budget.

Normal U.S. Valuations



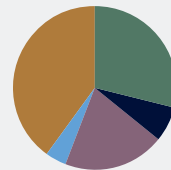
Risk Budget 65

Higher U.S. Valuations



Risk Budget 80

Lower U.S. Valuations



Risk Budget 50

■ Domestic Large-Cap ■ Domestic Small/Mid-Cap ■ Developed International ■ Emerging Markets ■ Fixed Income

## Changes to Your Investment Portfolio

CLS's focus on managing risk instead of allocating portfolios according to a stock-to-bond ratio gives us increased flexibility over other asset managers. By examining the actual risk of investment choices, we can discover relationships that others may miss.

There are two general reasons CLS makes changes within your investment portfolio:

1

The risk of underlying assets changes.

2

The attractiveness of underlying assets changes.



## Asset Allocation

CLS's unique and consistent risk management process is critical in helping you reach your long-term investment objectives. It is designed to provide stability to your portfolio and peace of mind that your investments are being maintained at the level of risk you are comfortable with, regardless of what is happening in the market. In addition, by globally diversifying your investments among over 100 asset class segments and strategies, CLS seeks to minimize portfolio volatility while pursuing areas of opportunity in the market, all within the constraints of your Risk Budget.

### Commonly-Tracked Asset Classes

Equities	International	Large Cap	Mid Cap	Small Cap
Bonds	Government	Corporate	High Yield	

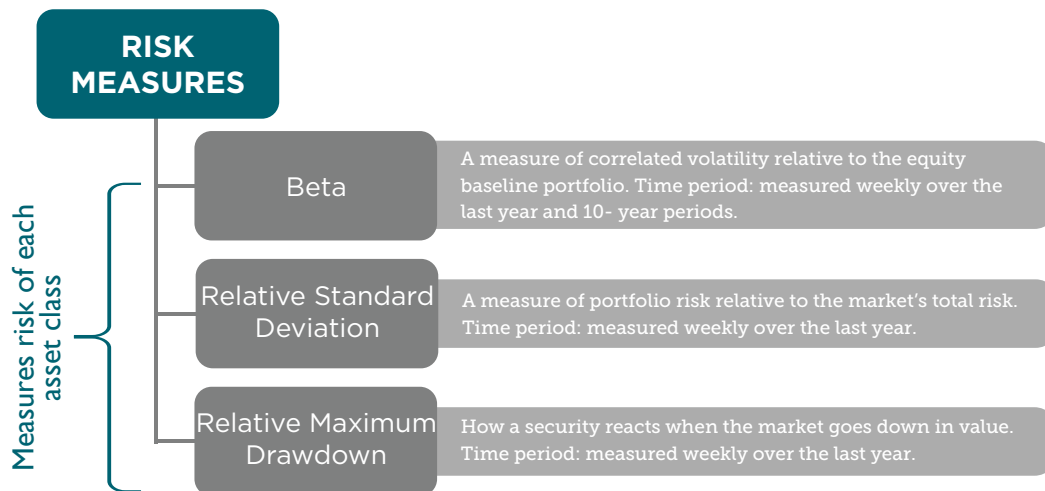
### Sample Asset Class Segments and Strategies CLS Tracks

Domestic Equities	International Equities	Fixed Income	Alternatives	
Mega Cap	Developed	Investment Grade	Volatility	Agriculture
Large Cap	Emerging	High Yield	Inflation	Base Metals
Mid Cap	Small Cap	Inflation Linked	Merger Arbitrage	Precious Metals
Small Cap	Regions	International (Developed)	Market Neutral	Energy
Micro Cap	Value	Emerging Market	Buy/Write	Gold
Growth	Frontier	Cash		
Value	Global Infrastructure	Mortgages		
Sectors		Municipals		

Each asset CLS tracks is assigned a risk score, which allows different types of assets to be compared, regardless of whether they are stocks, bonds, or even commodities. Risk Budgeting allows asset classes to be analyzed together to see which is the most attractive, which is not possible when the only consideration is whether an asset is an equity or a bond. By tracking a multitude of asset classes, CLS is able to better focus on an individual asset's actual risk.

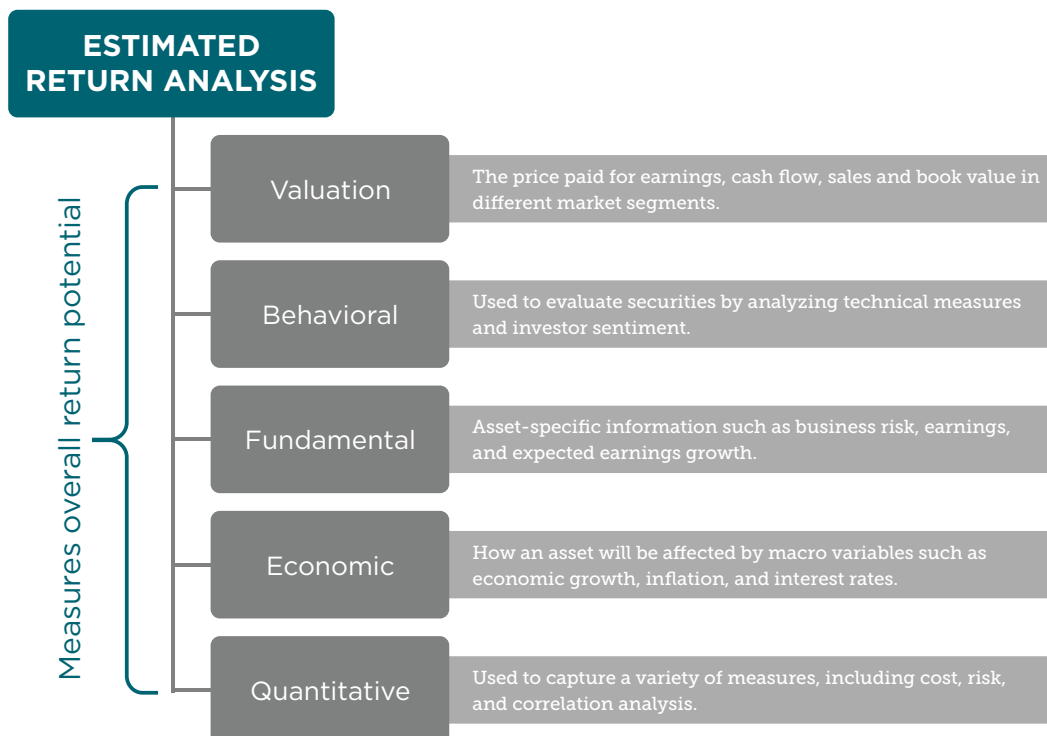
## Estimating Risk Potential

CLS uses a combination of three risk measures with quantitative inputs in conjunction with quantitative and qualitative investment analysis of asset classes to estimate risk and overall return potential.



## Estimating Return Potential

The goal of investment analysis is to analyze the attractiveness of an asset not only based on its risk, but also on the return potential the asset may bring to the portfolio. Consistent with our overall approach, CLS relies on a set of quantitative inputs and qualitative evaluations of asset classes to estimate overall return potential. CLS portfolio managers focus on five characteristics when analyzing the attractiveness of a security: economic, fundamental, statistical, technical, and valuation.





*This material does not constitute any representation as to the suitability or appropriateness of any security, financial product or instrument. There is no guarantee that investment in any program or strategy discussed herein will be profitable or will not incur loss. This information is prepared for general information only. It does not have regard to the specific investment objectives, financial situation, and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any security or investment strategy discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that security values may fluctuate and that each security's price or value may rise or fall. Accordingly, investors may receive back less than originally invested. Past performance is not a guide to future performance. Individual client accounts may vary. Investing in any security involves certain risks called non-diversifiable risk. These risks include market risk, interest-rate risk, inflation risk, and event risk. These risks are in addition to any specific, or diversifiable, risks associated with particular investment styles or strategies.*

*The benchmark for CLS Risk Budgeted strategies is a blended index composed of a set portion of the Equity Baseline Portfolio (EBP) and the Bloomberg Barclay's Capital 1-3 Month U.S. Treasury Index (Bloomberg Barclay's). The precise allocation of each benchmark to each index is based solely upon the risk budget of the model. For example, a Core ETF Strategy model with a risk budget of 95 will utilize a benchmark of 95% EBP, 5% Bloomberg Barclay's, whilst a Core ETF Strategy model with a risk budget of 60 will utilize a benchmark of 60% EBP, 40% Bloomberg Barclay's.*

*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 US 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 US) is an index considered representative of stock markets of developed and emerging markets, excluding those of the US. The Bloomberg 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.*

*CLS Risk Budgeted strategies are considered diversified portfolios which may invest in Exchange Traded Funds, or ETFs, individual stocks, or bonds. The strategies will target specific sectors or investment methodologies which, depending on the strategy, may include domestic large, mid, and small cap equities, international equities, value investing, commodities, natural resource companies, real estate investment trusts, master limited partnerships, convertible bonds, senior bank loans, high yield bonds, government debt, preferred stock, managed futures, derivatives, high quality, and low volatility. There are additional risks associated with investment in these sectors or utilizing these methodologies.*

*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.*

*Small or mid-cap companies are less predictable than large or mega-cap companies. Earnings are less predictable, shares are more volatile, and such companies generally fluctuate in value much more than large cap companies.*

*Developed international securities and American Depositary Receipts may be subject to fluctuations in the exchange rate, varying degrees of market regulations within the foreign country, lower liquidity and increased volatility as compared to US securities, additional tax implications, and political, economic, or social instability. Emerging markets may experience risks similar to developed nations but to a far greater degree. The stage of economic development of the country will be directly related to the amount of risk within that country's market.*

*Value investing refers to investment in undervalued securities in an effort to achieve greater overall returns. A security which is considered undervalued might never achieve the level of return projected by an investor. As such, value investing is subject to liquidity risks in addition to the general business risk.*

*Commodity instruments may be affected by changes in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargo, tariffs, and international economic, political, and regulatory developments.*

*Real Estate Investment Trusts are subject to decreases in value, adverse economic conditions, overbuilding, competition, fluctuations in rental income, and fluctuations in property taxes and operating expenses.*

*A Master Limited Partnership (MLP) is a partnership which is publicly traded with at least 90% of capital coming from real estate, natural resources, and commodities. As such, MLPs are subject to all of the underlying risks of these investments.*

*Convertible securities will generally involve lower credit risk than a common stock as convertible securities are senior to common stock. Convertible securities generally pay lower dividends and interest than non-convertible securities.*

*Senior Bank Loans are loans generally secured by a lien against a specific asset and are the first to be repaid in the event of a bankruptcy. While the business risk is lower than that of an unsecured loan, the risk is still present.*

*High Yield Bonds, also known as "junk bonds" are bonds with low credit ratings. Investors generally invest in high yield bonds due to the prospect of greater than average interest payments. High yield bonds are subject to a greater degree of the business risk, credit risk, and the liquidity risk as opposed to a medium-grade or investment-grade corporate debt security.*

*A derivative is a contract which may include futures contracts, forward contracts, options, and swaps, which are based on an underlying asset such as a stock, bond, commodity, currency, etc. The risk of the derivative for the writer will be closely related to that of the underlying asset.*

*The CFA is a globally respected, graduate-level investment credential established in 1962 and awarded by CFA Institute — the largest global association of investment professionals. To learn more about the CFA charter, visit [www.cfainstitute.org](http://www.cfainstitute.org)*

*The CMT Program demonstrates mastery of a core body of knowledge of investment risk in portfolio management. The Chartered Market Technician® (CMT) designation marks the highest education within the discipline and is the preeminent designation for practitioners of technical analysis worldwide. To learn more about the CMT, visit <https://cmtassociation.org/>*

*CIMA professionals integrate a complex body of investment knowledge, ethically contributing to prudent investment decisions by providing objective advice and guidance to individual investors and institutional investors. To learn more about the CIMA, visit <https://www.imca.org/cima>*

*The CAIA® is the globally-recognized credential for professionals managing, analyzing, distributing, or regulating alternative investments. To learn more about the CAIA, visit <https://caia.org>*