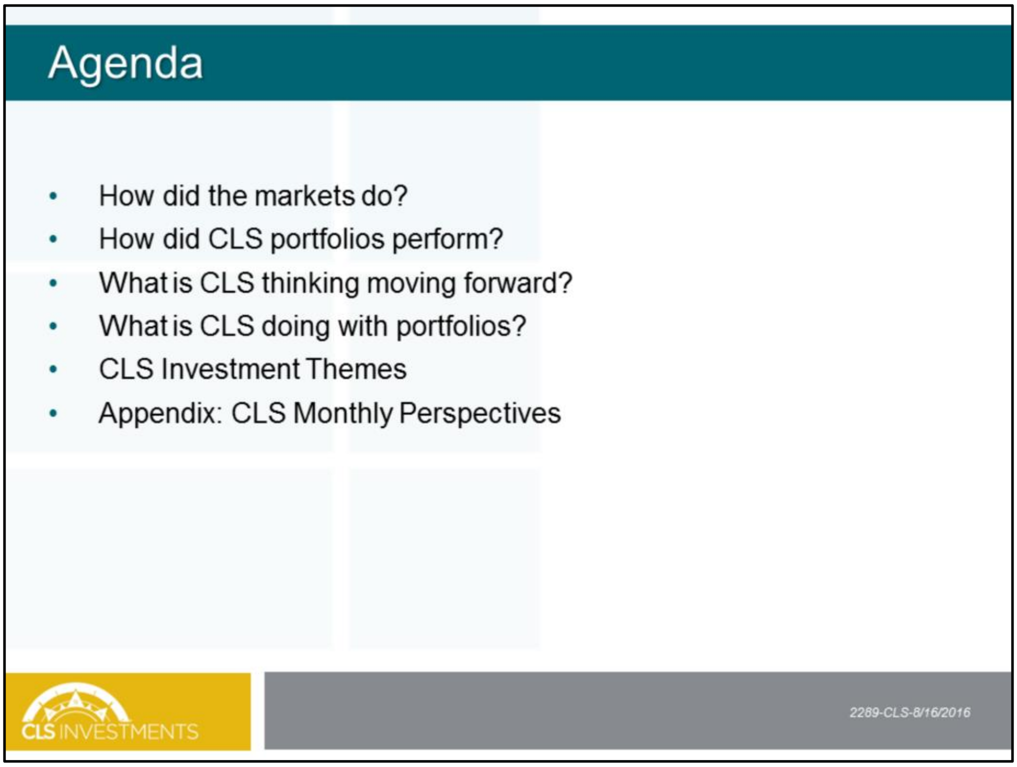
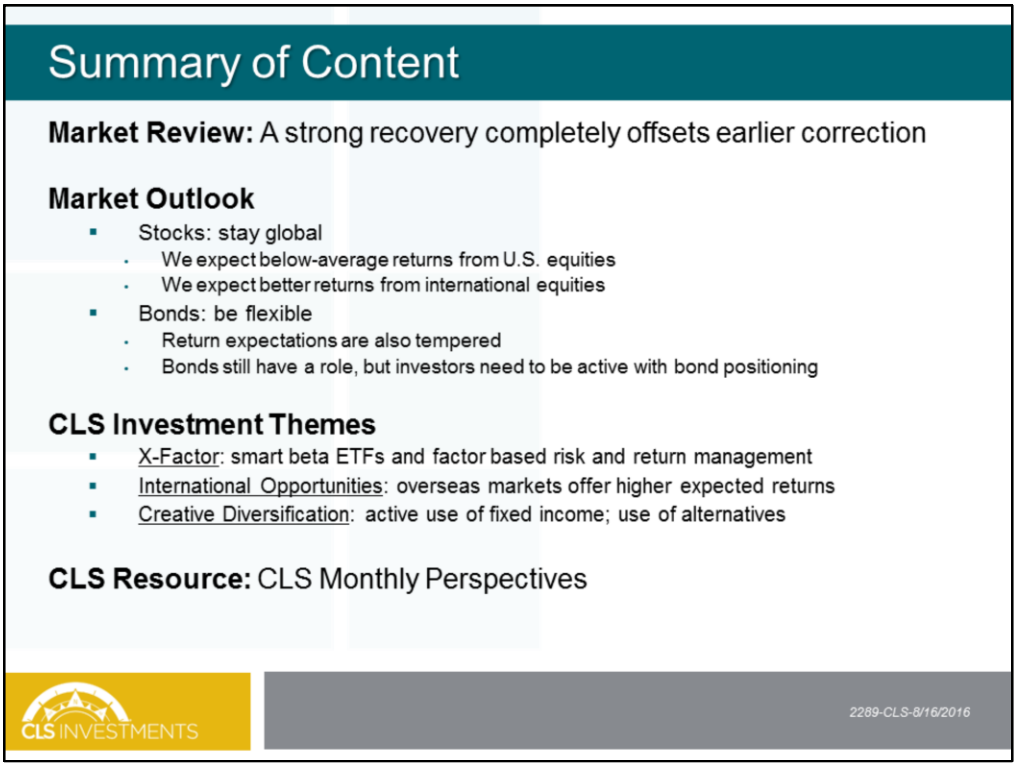
Welcome to the CLS Quarterly Market Outlook for the third quarter of 2016.



In this quarterly market outlook, we will review how the markets have performed over the last quarter and detail our stock and bond market outlooks. We will also review CLS's Investment Themes.

In addition, our one-stop piece for CLS's outlook and positioning: CLS's "Monthly Perspectives" piece will be detailed.



The second quarter of 2016…

In our stock market outlook, we affirm our commitment to global investing. Given current valuations, we expect below-average returns from U.S. equities in the coming years and better returns from international equities.

In our bond market outlook, we recognize the importance of flexibility. Return expectations are tempered given the low level of interest rates, but bonds will still play a role. They have outperformed stocks over the last quarter and, for that matter, last year. Nonetheless, investors need to be active with bond positioning. Investors should also consider an increased use of alternative investments. Expect to see more alternatives in CLS-managed portfolios.

We will also review our Investment Themes for 2016:

1. <u>X-Factor:</u> use smart beta ETFs and factor-based risk management
2. <u>International Opportunities:</u> overseas markets offer higher expected returns
3. <u>Creative Diversification:</u> need to be active with fixed income and use alternatives

Market Review: Performance Q2 2016

STOCK MARKET	QTD	YTD	1 Year	3 Year	5 Year
Total U.S. Market Russell 3000 Index	2.63	3.62	2.14	11.13	11.60
Domestic Large-Cap Equity S&P 500 Index	2.46	3.84	3.99	11.66	12.10
Domestic Small-Cap Equity Russell 2000 Index	3.79	2.22	-6.73	7.09	8.35
International Equity MSCI ACWI ex-U.S. Index	-0.64	-1.02	-10.24	1.16	0.10
Developed International Equity MSCI EAFE Index	-1.46	-4.42	-10.16	2.06	1.68
Emerging Market Equity iShares MSCI Emerging Markets Index	0.66	6.41	-12.06	-1.56	-3.78
FIXED INCOME					
U.S. Bonds Barclays Capital U.S. Aggregate Bond Index	2.21	5.31	6.00	4.06	3.76
Cash Equivalent Barclays Capital 1-3 Month U.S. Treasury Bill Index	0.05	0.12	0.14	0.06	0.06

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To begin our detailed market review, let's discuss the market's performance in the second quarter and over the last one-, three-, and five-year periods.

Despite a sharp downturn late in the quarter, global markets rebounded strongly through the end to finish with gains. Domestic stocks (Russell 3000) gained nearly 3%, which left the one-year return at just above 2%. The three-year annualized return, however, is still an impressive 11% a year, as is the five-year annualized return. The bull market in stocks is still officially alive!

U.S. large-cap stocks (S&P 500) were up over 2%. For the last year, U.S. large-cap stocks have gained 4%. The 3-year and 5-year annualized returns are both roughly 12%. It was Domestic small-cap stocks (Russell 2000), however, that performed the best. For the quarter, small caps gained 4%, though finished down 7% on their one-year return. The 3-year and 5-year annualized returns were a positive 7% and 8% respectively.

International stocks (MSCI ACWI ex-U.S.) meanwhile, which includes both developed (MSCI EAFE) and emerging markets (MSCI Emerging Markets), did finish with a small loss of just under 0%. The ACWI ex-US has lost 10% over the last year, though the 3-year and 5-year annualized returns were both positive.

There was a big difference between developed and emerging markets though. While developed international lost over 1% for the quarter, emerging markets were up just under 1%. EM is still lagging in the 1-, 3- and 5-year returns though.

The bond market had another great quarter with the Barclay's Capital Aggregate Index, the best (though imperfect) proxy for the over-all bond market, gaining 2%. It's now up 6% over the last year, with 3- and 5-year annualized returns at 4%.

What Worked in Q2 2016 ↑

For The Markets	*For CLS*
Equities	Equities
▸ Utilities ▸ Telecommunication Services ▸ Healthcare ▸ Real Estate	▸ Exposure to Emerging Markets ▸ Overweight to the Telecommunications Services ▸ Overweight to Large/Mid-Cap Value
Fixed Income	Fixed Income
▸ Emerging Market Bonds ▸ High-Yield Bonds ▸ Investment-Grade Corporate Bonds	▸ Emerging Market Bonds ▸ High-Yield Bonds ▸ Investment-Grade Corporate Bonds
Alternative / Real Assets	Alternative / Real Assets
▸ Precious Metals ▸ Preferred Stocks	▸ Precious Metals

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What Didn't Work in Q2 2016 ↓

For The Markets	*For CLS*
Equities ▸ Developed International ▸ Technology ▸ Consumer Cyclicals	Equities ▸ Exposure to Developed International Markets ▸ Exposure to Large-Cap Growth
Fixed Income ▸ Securitized Debt ▸ Short Duration	Fixed Income ▸ Securitized Debt ▸ Short Duration
Alternative / Real Assets ▸ Private Equity	Alternative / Real Assets ▸ Private Equity

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Helping Investors Succeed:
Our primary goal is investor success, which we achieve through (1) portfolio management and (2) education and communication. Our education, communication, and client service resources are better than ever before, and we continue to believe that global, balanced, Risk-Budgeted ETF portfolios are key to successful portfolio management.

Risk Budgeting:
This is what CLS is known for, and we're doing it well. Over 90% of our assets are Risk Budgeted. Even the portfolios that are not formally Risk Budgeted are still risk managed. Risk management is key to what we do – it's important to portfolio construction and to the story we tell our investors.

Why do we think Risk Budgeting works for investors? Identifying our clients' risk profiles and managing their portfolios accordingly helps our investors stay the course. Remember, a huge value add is wrapped up in our profiles.

Global:
We are global investors. We stand by our "global" tag now more than ever.

Why be global? Diversification across domestic and international assets has been shown to provide better risk-adjusted return for investors.

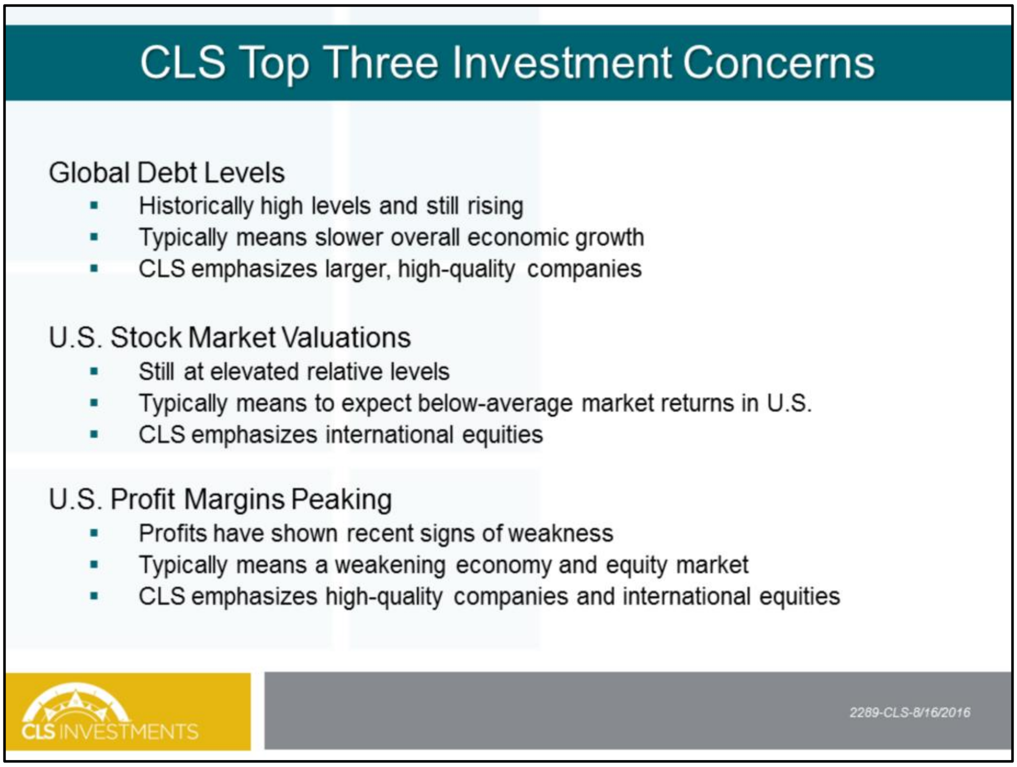
Balanced:
We are asset allocators. We manage risk and return requirements through balanced portfolios. Our asset allocation and risk-management research continues to improve.

Why are we balanced? Staying balanced works for investors. For instance, the majority of our clients are comfortable with a Risk Budget score of around 70.

ETFs

We are one of the largest active money managers of ETFs.

Why ETFs? ETFs provide numerous potential benefits for investors, including lower costs, tax efficiency, investment precision, and more.



Global Debt Levels:
Global levels of public and private debt are at historically high levels and still rising. Higher debt levels have been associated with lower economic growth, lower inflation and lower interest rates.

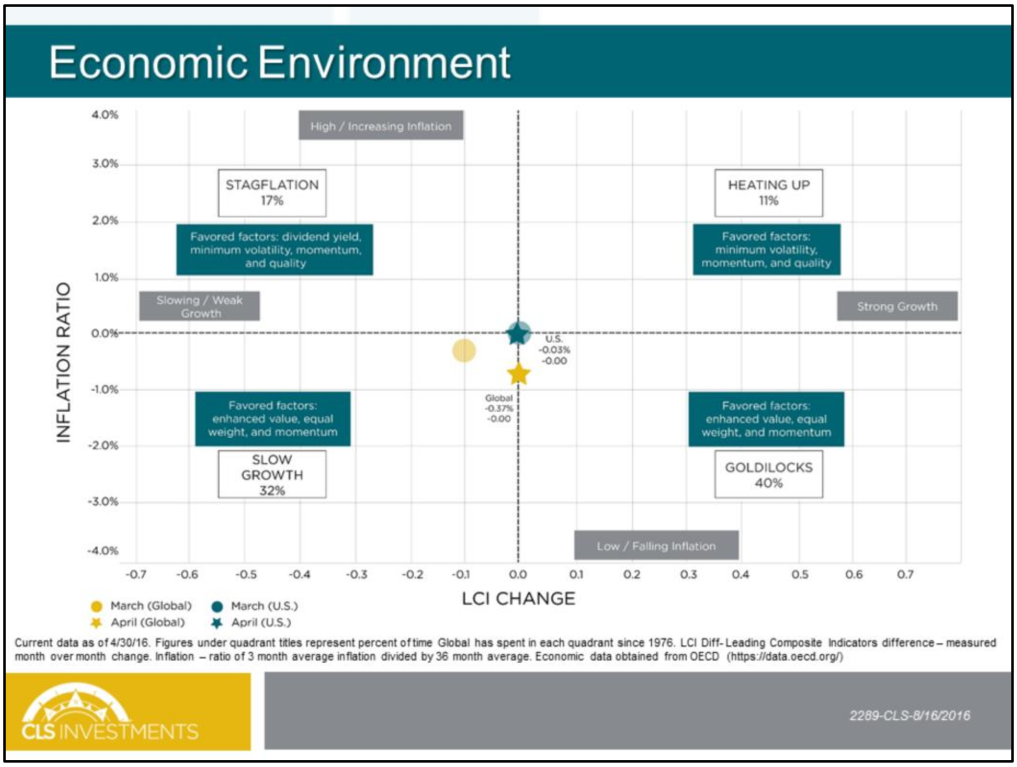
CLS is currently overweight to larger companies, particularly higher-quality firms (high return on equity, low debt, cash rich). These firms tend to hold up better during periods of slow growth, and in higher volatility markets because management is more confident in financial stability. We have also been ramping up positions in the minimum-volatility factor. Quality and minimum-volatility investments fall under our X-Factor theme.

U.S. Stock Market Valuations:
Although the market has had a lackluster 2015 and a rough start to 2016, U.S. stock market valuations are still at elevated levels relative to historic averages and the rest of the world.

CLS is currently overweight international equities (both developed and emerging markets). These overseas markets have more attractive valuations, higher dividends, accommodative monetary policies, and robust economic reforms. We feel the best opportunity for future gains will come from abroad. This is defined in our International Opportunities theme.

U.S. Profit Margins Peaking:
Profit margins (profits less costs) tend to be a highly mean-reverting data series (moves back to average) due to corporate competition. In the U.S., profits have climbed to record levels over the last several years (peaking profits and bottoming costs) but have recently shown signs of weakness. A pattern of downward reversion could spell persistent pressure on corporate profits, weakening the economy and equity markets.

As mentioned above, we invest on a global scale to gain access to companies with various margin levels, diversifying our equity exposure. In addition, our U.S. exposure primarily consists of higher-quality companies who tend to have wide “moats” – competitive advantages that aren’t easily replicated by peers. This translates into the ability to maintain elevated margin levels for prolonged periods of time. These solutions are executed in both our International Opportunities and X-Factor investment themes.



This chart captures the current economic environment. First, it is trying to capture the change in economic growth by looking at changes in the leading composite indicators (LCI). Second, it is looking at changes in inflation. We are looking at data for both the U.S. and the overall global economy. The source of our data is the OECD.

Using the growth and inflation data, we can create quadrants. For instance, rising inflation and rising economic growth is “heating up.” Rising growth/falling inflation is “goldilocks”. Falling growth/falling inflation – like what we have now – is “slow growth.” Rising inflation/falling growth is “stagflation.”

Each box has a percentage in it. That number represents the amount of time the economy has spent in the quadrant since 1976. Slow growth, again what we’re in now, has occurred 32% of the time.

Where we are in the economic environment has an impact on factor investing (which is part of our X-Factor theme).

LCI- Leading composite indicators – measured month/month change inflation ratio – ratio of 3 month average inflation divided by 36 month average.

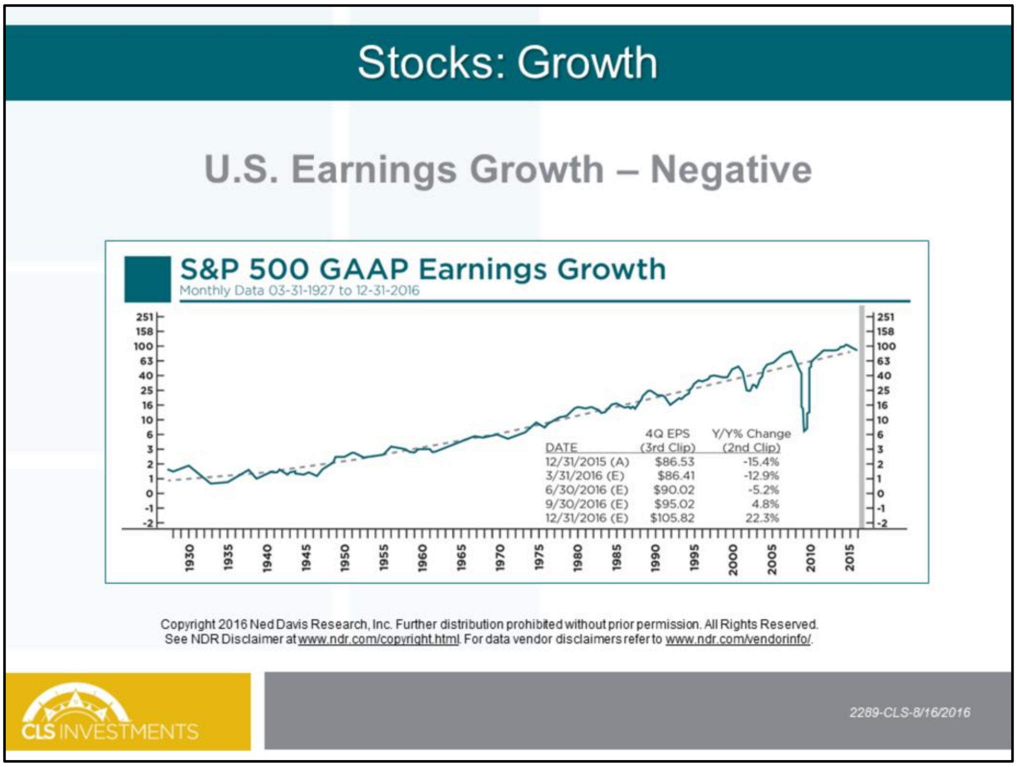
Favored factors based on regime:

- Stagflation favors dividend-yield, minimum volatility, momentum and quality
- Slow growth favors minimum volatility, momentum, and quality
- Goldilocks favors enhanced value, equal weight, and momentum
- Heating up favors enhanced value, equal weighted

Penalized factors based on regime:

- Stagflation penalizes equal weight and enhanced value
- Slow growth penalizes slow growth and enhanced value
- Goldilocks penalizes minimum volatility and quality
- Heating up penalizes minimum volatility, momentum, and quality

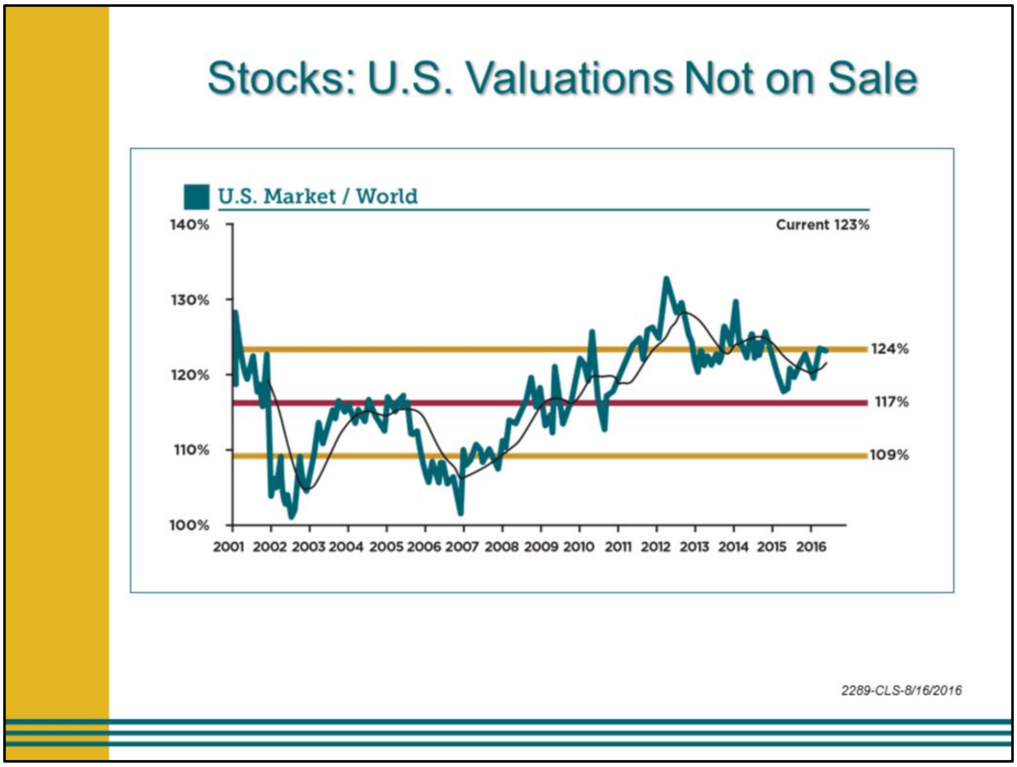
Now, let's take a look at the key factors affecting our stock market outlook: earnings growth, valuations, sentiment, the presidential cycle, building blocks, and expected returns. We will also examine our bond market outlook.



Reported earnings growth has been negative in recent quarters, but the data is improving.

Estimates for first quarter earnings growth in 2016 are now -13% ($86/share for S&P 500). Earnings are expected to be better, but still negative year-over-year percentage change, in the second quarter of 2016. The second half of 2016 is projected to show a comeback to growth of earnings, finishing the year quite strong at a forecasted 22% growth for the fourth quarter.

What does this type of earnings growth typically mean for the stock market? All else being equal, when earnings are improving from poor levels, it is an environment where smaller and more value-oriented securities do better. These are areas we have de-emphasized in recent years, but our thinking/positioning has been starting to shift.



CLS produces a monthly Chart Pack available to advisors on CLS's post-login website (CLSinvest.com/login). This pack reviews the relative valuations of major asset classes.

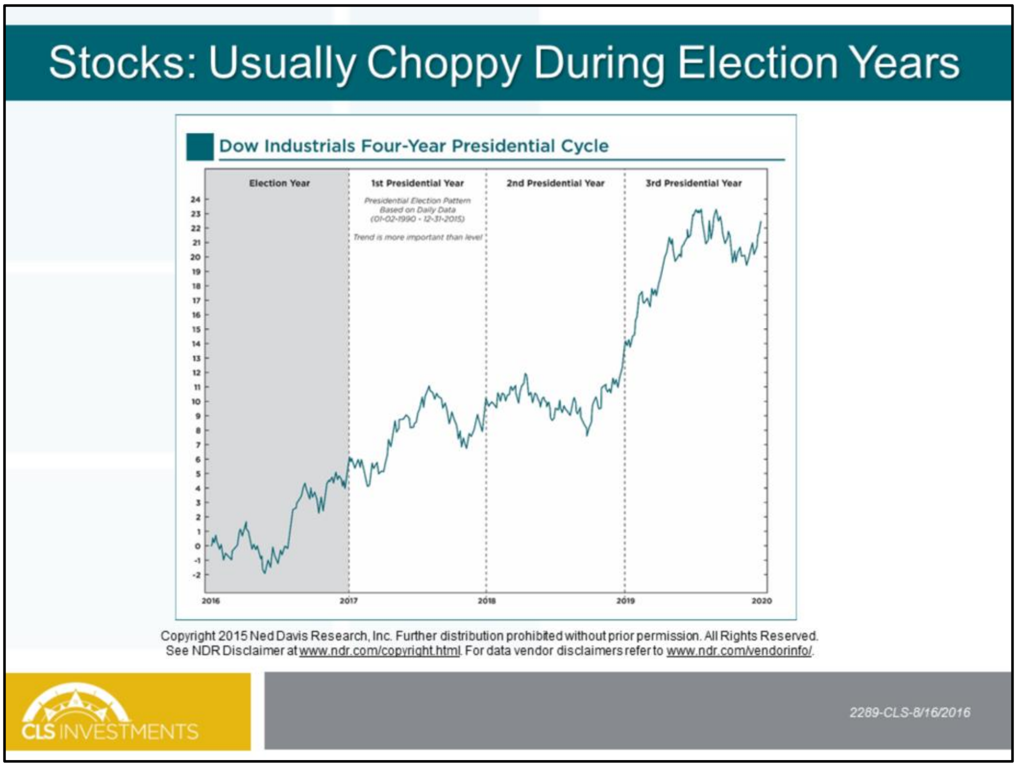
Let's review how to interpret a CLS Relative Valuation Chart and why international markets look attractive.

This slide explains how CLS looks at relative valuations. The relative valuation score is a combination of:

- Price/Earnings
- Price/Sales
- Price/Book
- Price/Cash Flow
- Price/Dividends

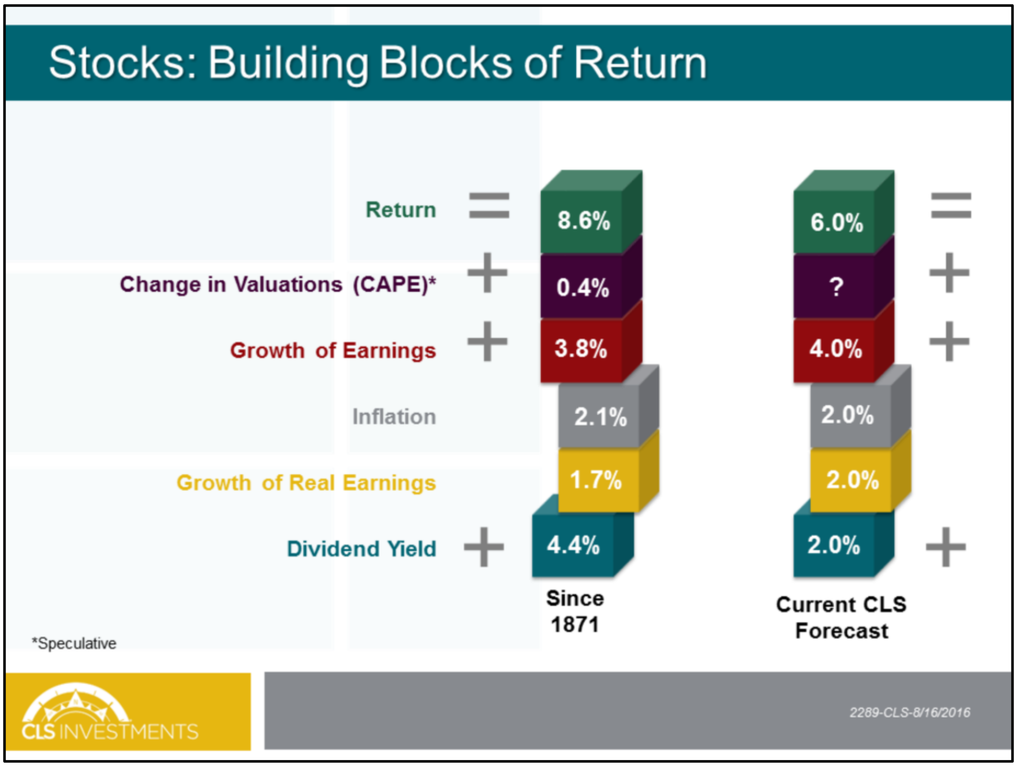
All figures shown are trailing (no estimates). The figures are calculated for an asset and broad market index. The valuation composite is then shown ***relative** to* a broad index.

When it comes to U.S. valuations, as of the end of May, the U.S. was trading at a 23% premium to the world while it typically trades at a premium of 17%. *The valuations are above their averages since 2001, suggesting the market is not cheap.*



The above chart follows the trend in the Dow Jones Industrials over a four-year presidential cycle based on daily data starting in the year 1900. The y-axis shows % return and the x-axis shows the current presidential cycle. In this graph, the trend is more important than the actual level of the Dow.

Looking at the data, as we are currently in the Election Year, the Presidential Cycle suggests that the first half of the year will be choppy. The back half of the year, however, is that the stock market should do a lot better.



All investments, including those in the stock market, get their returns from three sources: yield, growth in yield, and change in valuations.

Since 1871, dividends (shown in teal) have contributed 4.4% of return in the U.S. stock market. Earnings growth (shown in red) combines two components: growth in real earnings and inflation. Over the long term, earnings growth has been about 3.8%. Valuations (shown in purple) have crept up ever so slightly over the last 145 years and have contributed 0.4% to performance. Overall, U.S. stocks have returned a healthy 8.6% per year.

So how does it look going forward? Let’s peg dividend yields to be about 2%. Earnings growth in the years ahead is expected to be about 4.0% (about half from inflation and half from real growth). At CLS, we expect little change in valuations (if not lower valuations); therefore, our expected U.S. stock market return is 6.0%.

This all leads to the question: so what will valuations do? Given the strong expansion in valuation multiples (a leading reason for market gains in recent years), it’s not likely we’ll see much stronger gains. In other words, the overriding message is the recent increase in U.S. investments is occurring at a pace more rapid than earnings growth supports. Thus, more modest expectations of 6.0% (or lower) over the intermediate term are more likely.

Stocks: Historical Annualized Returns

Frequency of Historical, Rolling 12-Month Annualized U.S. Stock Market Returns Since 1871

12-Month Rolling Returns	Current CLS Outlook	Long-Term Average
Returns > 20%	8%	30%
Returns between 10 and 20%	13%	22%
Returns between 5 and 10%	21%	10%
Returns between 0 and 5%	18%	10%
Returns between 0 and -5%	15%	9%
Returns between -5 and -10%	12%	7%
Returns < -10%	12%	12%

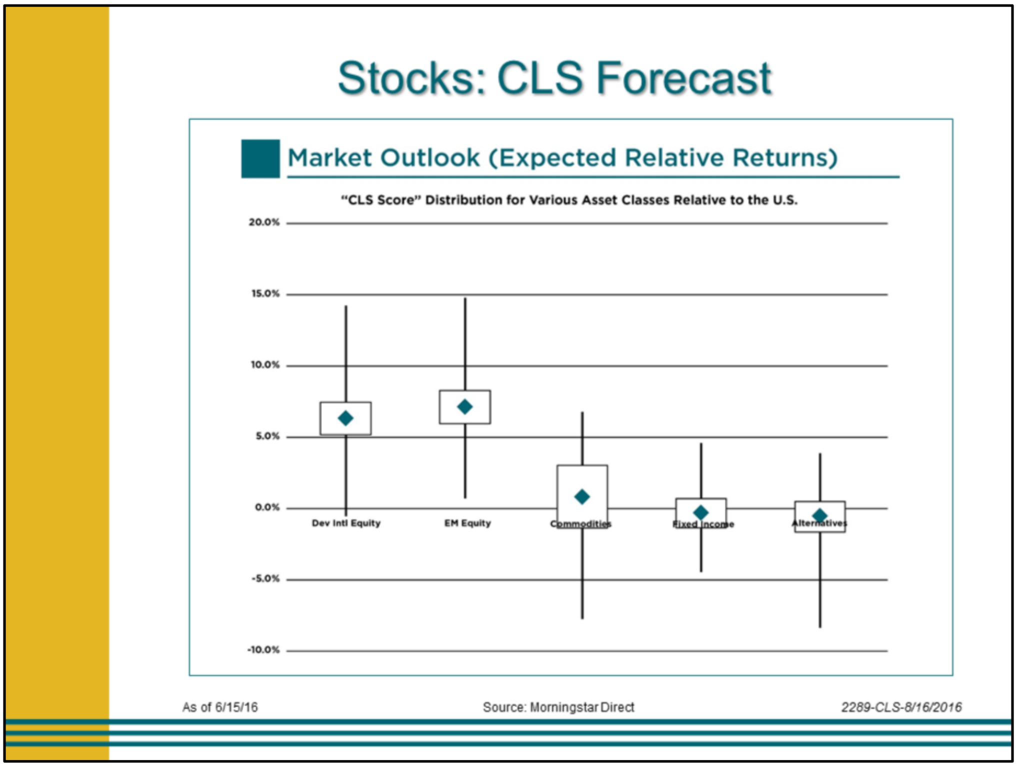
- Given valuations, CLS believes future U.S. returns will be lower than their historical average.
- Other key points:
  - The market is not a coin flip over the long term. The edge belongs to the investor.
  - Short term, the market is volatile and emotional, with losses or big gains most of the time.
  - Long term, the frequency of positive returns increases.

As of 5/31/16 2289-CLS-8/16/2016

This chart displays the frequency of historical, rolling 12-month annualized returns for the U.S. stock market since 1871. As shown, the frequency of positive stock market returns was fairly high over the annualized periods. Returns infrequently fell negative and were rarely below -10%. So what can we conclude from this?

The CLS investment team currently expects returns to be below average with a much lower chance of high returns and a higher possibility of losses. But there are important points to keep in mind.

- Investing is an exercise in probabilities, not certainties.
- Given an uncertain future, we should build balanced, diversified portfolios. Though stocks generally perform better than bonds, bonds usually do well when stocks don't (consider 2008 as an example).
- The market has a strong positive skew to returns despite negative events that have occurred, including world wars, depressions, etc.
- Notice how many times the market actually returns less than 0.0% on a one-year basis – only 28% of the time.
- In the short term, the market is volatile. Volatility is destabilizing, and it activates emotions. Strong gains generate greed, and losses create fear. Thus, the conditions for fear or greed occur 80.0% of the time! This is why financial advisors are so important. We help keep clients on track toward their financial goals.
- Thinking long-term is key. Over longer holding periods, the historical probabilities of losses drops.



Despite our expectation that returns for the U.S. stock market will be below average, we do expect higher returns from international markets (5-10% higher per year for the next ten years).

The forecasts above are derived from our proprietary "CLS Score", which creates an expected return for every ETF. The CLS Score is built by first building a Capital Market Assumption (CMA) for a broad asset class, then adding a valuation overlay, a technical overlay, and then a cost adjustment for each ETF. The end result is an expected annualized return.

Bond Market Outlook

- Expect bond returns to be positive, but below historical averages
- Short-term rates are likely to rise gradually in the second half of 2016
- Global rates are low, and negative in many other major developed markets, making U.S. bonds attractive by comparison

G10 Country Yields

	2 year	3 year	5 year	7 year	10 year	30 year
Switzerland	-1.18	-1.16	-1.03	-0.9	-0.59	-0.04
Sweden	-0.63		-0.16	0.04	0.44	
Germany	-0.61	-0.61	-0.5	-0.37	-0.03	0.5
Netherlands	-0.52	-0.48	-0.25	-0.11	0.24	0.64
Belgium	-0.49	-0.4	-0.24	-0.03	0.44	1.29
France	-0.45	-0.38	-0.19	-0.01	0.4	1.16
Japan	-0.3	-0.28	-0.29	-0.31	-0.21	0.14
Italy	0.08	0.18	0.52	0.94	1.54	2.62
United Kingdom	0.34	0.44	0.65	0.91	1.11	1.94
Canada	0.51	0.5	0.57	0.79	1.1	1.76
United States	0.68	0.81	1.09	1.37	1.58	2.4

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*Data as of 6/16/2016

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Expect bond returns to be positive, but below historical averages. Interest rates may be low by historical standards, but the bond market typically provides a positive return even when rates start off from low levels.

Short-term rates are expected to rise gradually in 2016 as the Federal Reserve has begun to raise interest rates.

U.S. Treasury yields are higher than all other G10 nations across the entire curve (with the exception of the Italian 30-year). The relative attractiveness of U.S. Treasuries will help to keep rates down on the longer end of the curve, as foreign demand increases.

Bonds: Historical Annualized Returns

Frequency of Historical, Rolling 12-Month Annualized U.S. Bond Market Returns Since 1926

12-Month Rolling Returns	Current CLS Outlook	Long-Term Average
Returns > 20%	1%	3%
Returns between 10 and 20%	3%	16%
Returns between 5 and 10%	10%	26%
Returns between 0 and 5%	40%	40%
Returns between 0 and -5%	31%	13%
Returns between -5 and -10%	12%	2%
Returns < -10%	3%	0%

- Given the low level of interest rates, CLS believes future U.S. returns will be lower than their historical average.
- Other key points:
  - The market is not a coin flip over the long term. The edge belongs to the investor.
  - Short term, the market is volatile and emotional, with losses or big gains most of the time.
  - Long term, the frequency of positive returns increases.

As of 5/31/16

2289-CLS-8/16/2016

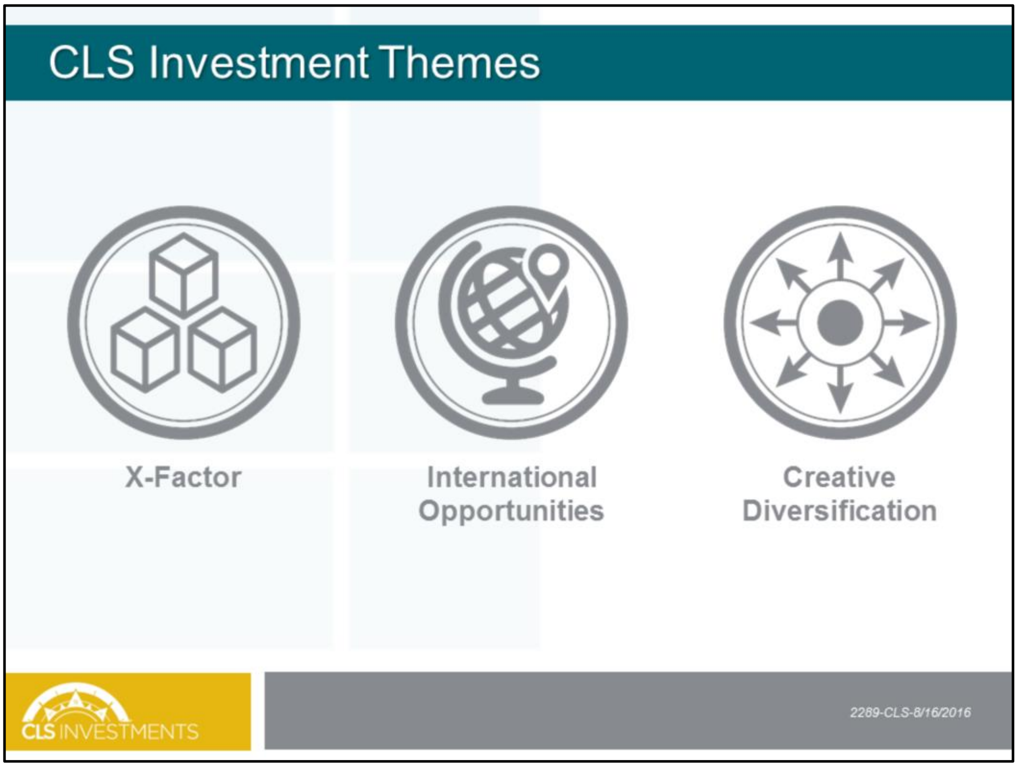
This chart displays the frequency of historical, rolling 12-month annualized returns for the U.S. bond market since 1926. As shown, the frequency of positive bond market returns was fairly high. Returns infrequently fell negative (only 15% of the time) and were never below -10.0%. So what can we conclude from this?

The CLS Investment Team currently expects returns to be below average with a much lower chance of high returns and a higher possibility of losses. CLS believes:

- The odds for returns over 5% over the next 12 months are significantly lower than the long-term average for bonds.
- The odds for a loss over the next 12 months are significantly higher than the long-term average for bonds.

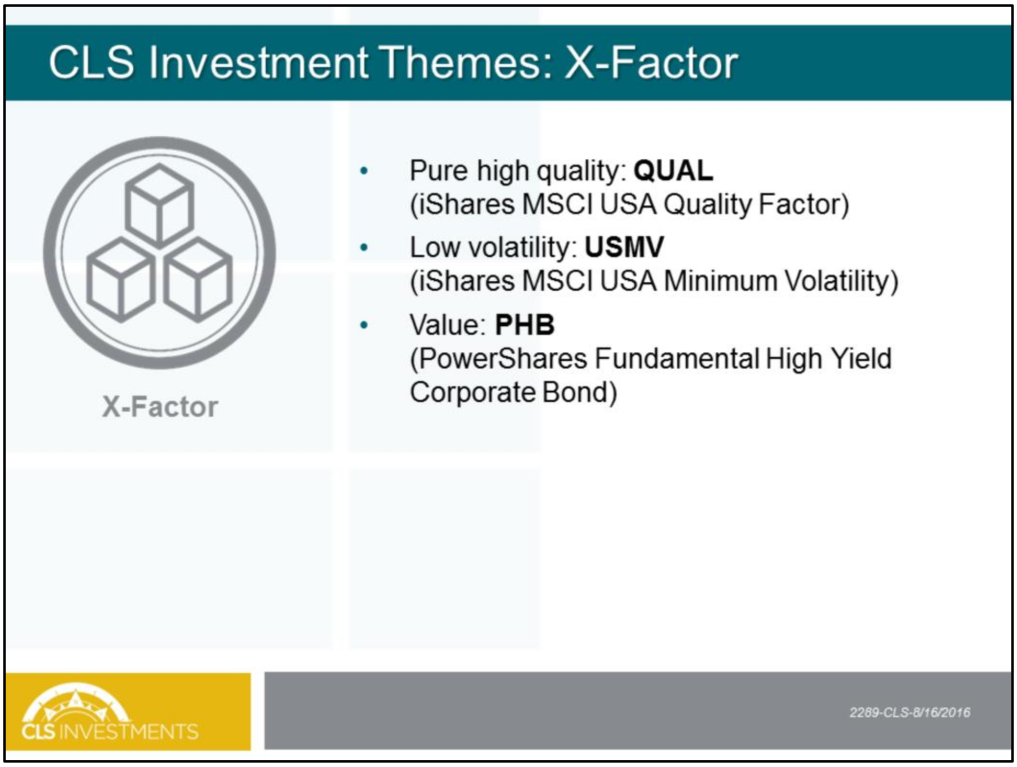
But there are important points to keep in mind.

- Investing is an exercise in probabilities, not certainties.
- Given an uncertain future, we should build balanced, diversified portfolios. Though stocks generally do better than bonds, bonds usually do well when stocks don't (consider 2008 as an example).
- Historically, the bond market has a strong positive skew to returns even during rising-rates environments.
- Again, notice how often the U.S. bond market actually returns less than 0% on a one-year basis – only 15% of the time.



The CLS Investment Themes are approved by the CLS Investment Committee, which meets quarterly.

Every CLS portfolio is built around the CLS Investment Themes. The Portfolio Management Team responsible for each portfolio decides how to articulate those themes.

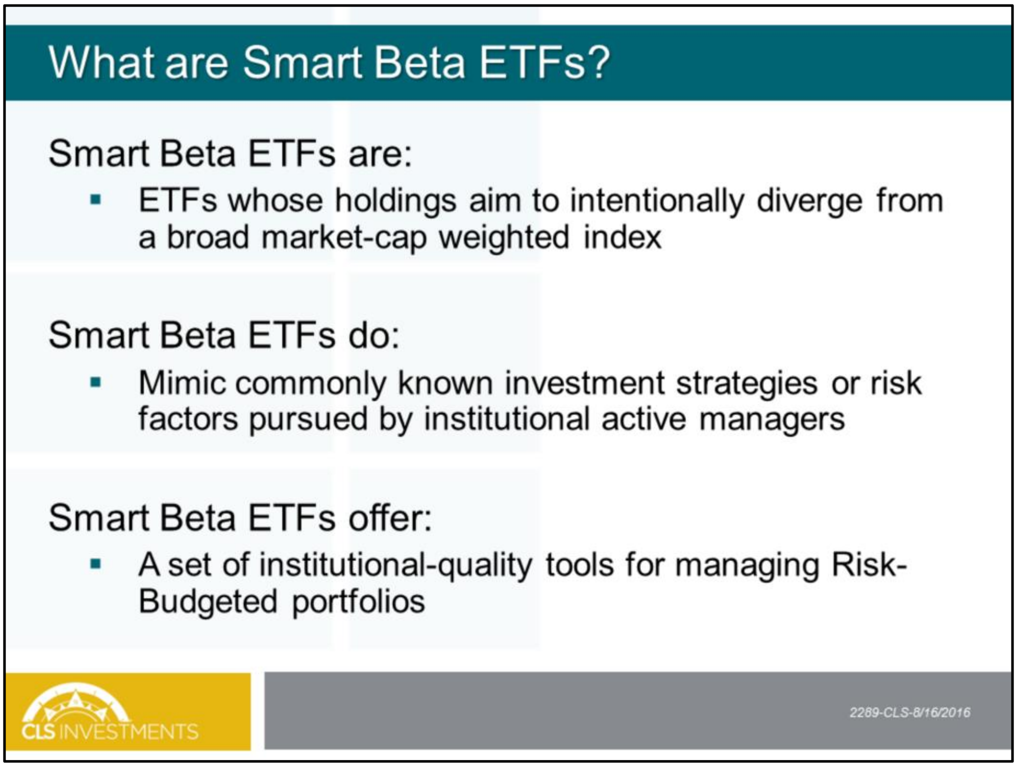


We will continue to emphasize factor based ETFs, otherwise known as “smart beta” ETFs, because we expect lower U.S. stock market returns and higher market volatility in the year(s) ahead.

Smart beta ETFs have a rules-based approach to building a portfolio, which emphasizes a factor, such as value, growth, or high quality. These ETFs capture the essence of active management, but at a fraction of the cost, and factor-based risk management will fortify our Risk Budgeting approach in a volatile environment.

The X-Factor investment theme may be addressed by investing in ETFs such as:

- QUAL (iShares MSCI USA Quality Factor)
- USMV (iShares MSCI USA Minimum Volatility)
- PHB (PowerShares Fundamental High Yield Corporate Bond)



How does CLS evaluate smart beta ETFs? Our process may look similar to what an institutional investor would expect from an investment consultant when performing due diligence on an active manager.

1. Smart Index Selection Criteria

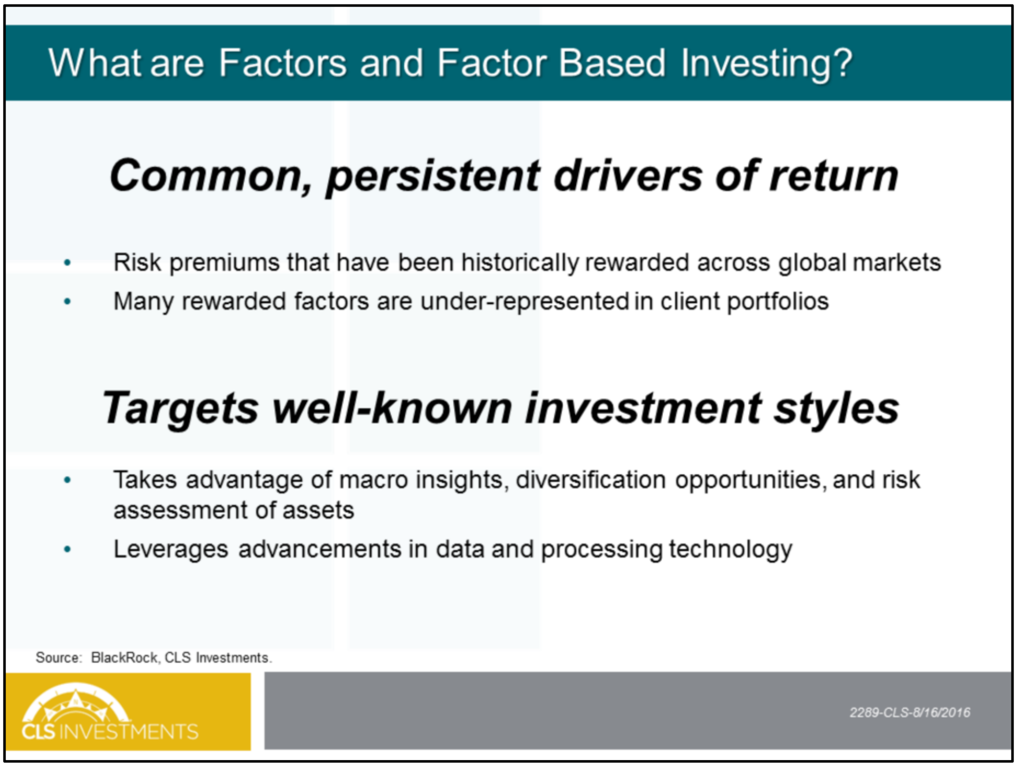
A rules-based index methodology is at the heart of every smart beta ETF. The methodology takes a well-known actively managed investment process and streamlines it into a set of decision criteria that can capture the majority of that investment process without divulging into nuanced security selection. Efficient smart beta ETFs have index methodologies whose rules are clear cut and repeatable over time without the need for human judgement.

2. Intelligent Combination of Factor Exposures

All smart beta ETFs result in an investment strategy that captures exposure to one or more factors common in investing, such as value, size, momentum, minimum volatility, quality, and/or dividend yield. An important consideration is how effective the smart beta ETF is in combining these factors to pare out unwanted risk and target the desired investment characteristics associated with the original strategy.

3. Balanced Weighting and Rebalancing Process

The final step in bringing any smart beta ETF to life is determining the portfolio weight of the underlying securities that made it through the rigorous selection process and how frequently the weightings should be refreshed. Both steps are critical to the stability and performance of any smart beta ETF. In any case, a good smart beta ETF should be designed to intelligently trade off the weighting approach and rebalancing cycle to ensure that risk, return, and trading costs remain balanced through time.



Okay, so what are "factor based ETFs" specifically? This is an important subset of the smart beta universe. Factors are broad, persistent drivers of returns (and risks). For example, the six we tend to emphasize the most in our investment decision-making at CLS are:

- Value
- Momentum
- Quality
- Minimum Volatility
- Size
- Dividend Yield

Why use factor investing?

Deliberate diversification
- Financial crisis showed investors that traditional asset allocation did not deliver diversified returns
- Investors need alternative portfolio construction techniques seeking superior diversification

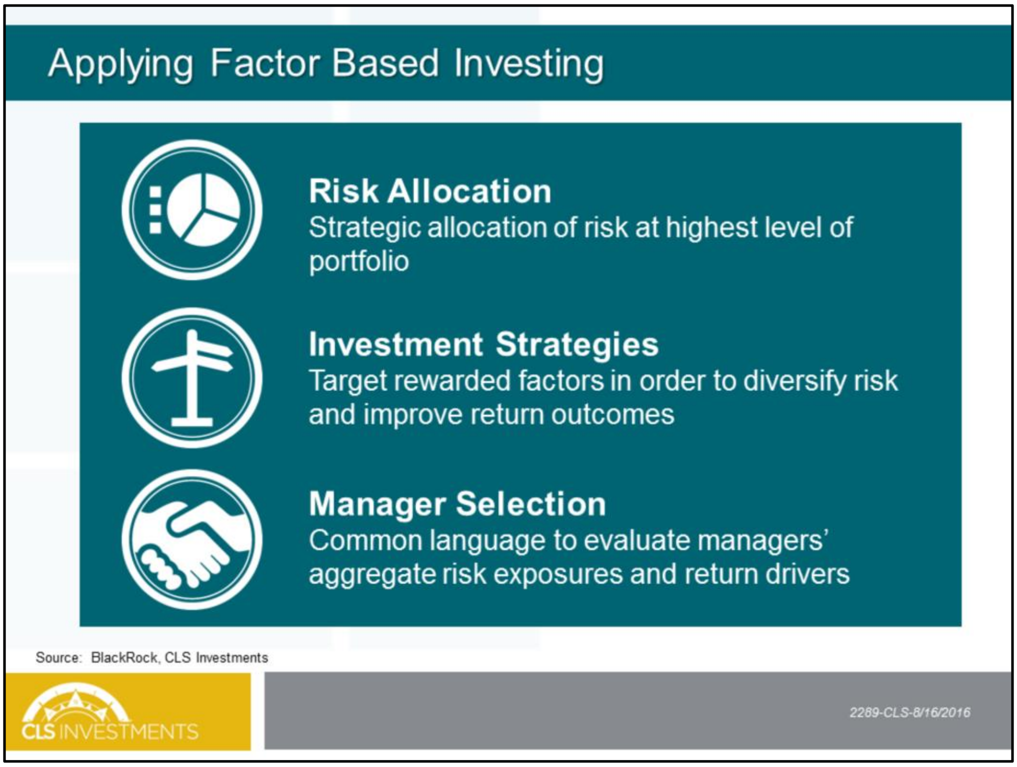
Challenging investment environment
- Investors seek broad and consistent drivers of superior returns
- Factor risk premiums can diversify traditional portfolios including long-only equities and bonds
- Focus on long-term, rewarded sources of risk, while minimizing unrewarded risks

Client portfolios underrepresent many rewarded factors

- Handful of factors dominate total and active risk: economic growth, rates, momentum
- Factor strategies can add new dimension of returns, better diversification, and potentially more consistent results

Focus on fees

- Factor strategies are relatively low cost
- Investors questioning whether active managers deliver true alpha in excess of index and factors


Applying Factor Based Investing
Risk Allocation
Strategic allocation of risk at highest level of portfolio
Investment Strategies
Target rewarded factors in order to diversify risk and improve return outcomes
Manager Selection
Common language to evaluate managers' aggregate risk exposures and return drivers
Source: BlackRock, CLS Investments
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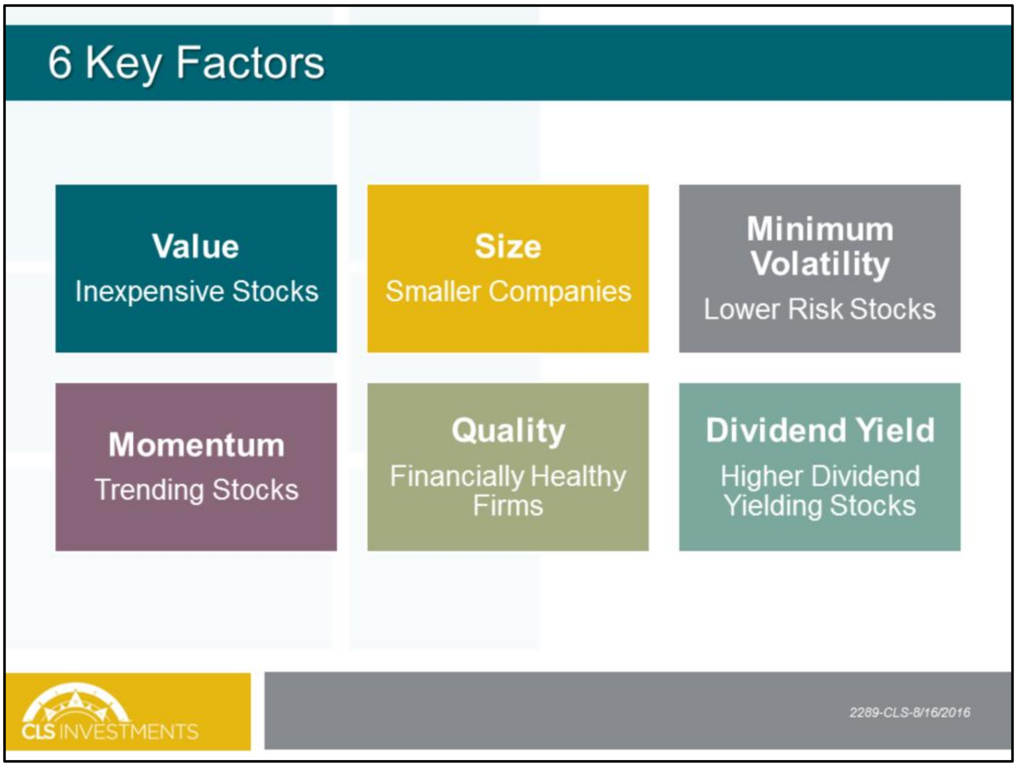
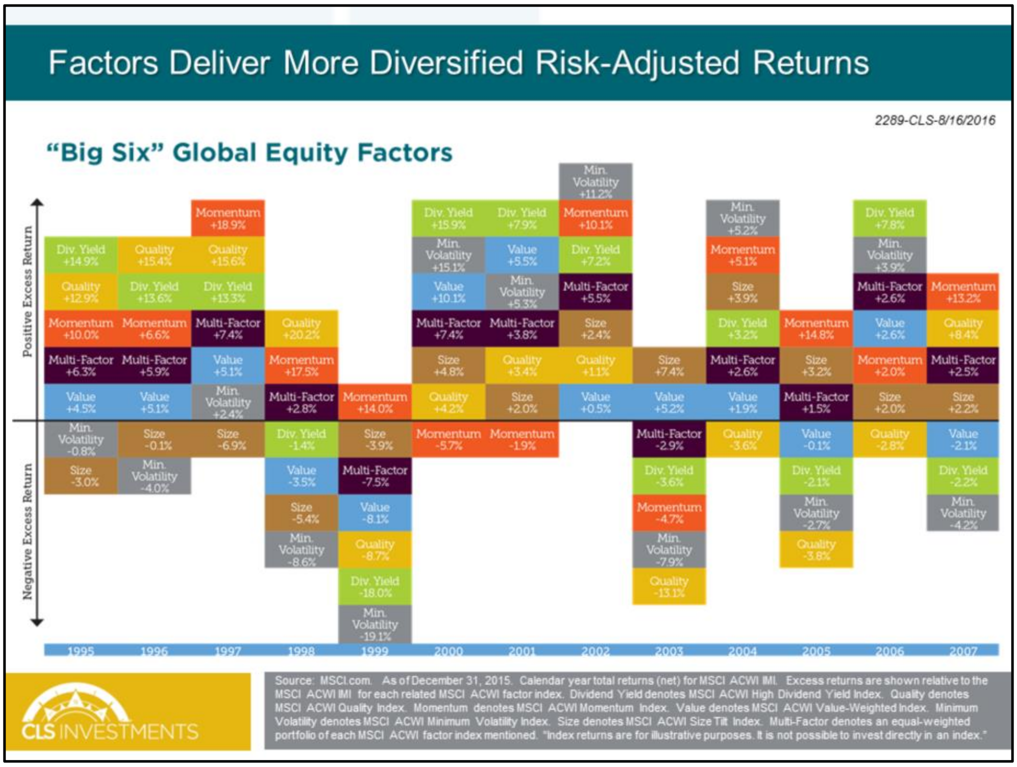


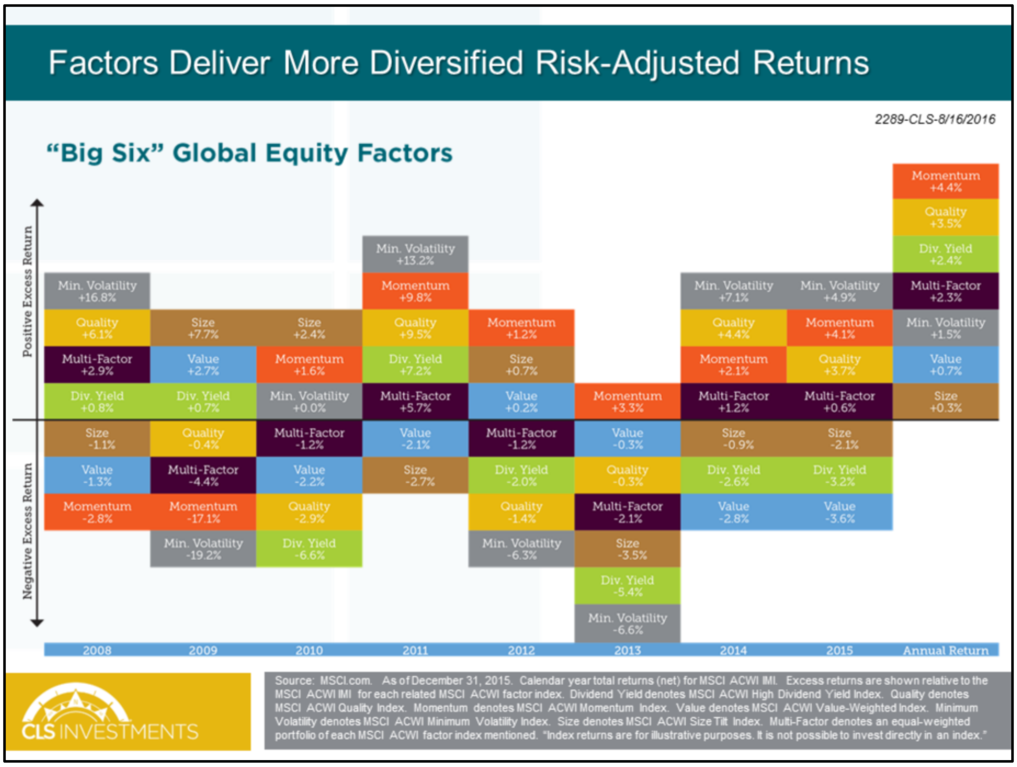
The six factors we tend to emphasize the most in our investment decision-making at CLS include value, momentum, quality, minimum volatility, size, and dividend-yield. You can read more about each of these factors in our Quarterly Market Outlook pdf.



The charts on these next two slides are powerful for many reasons. First, over the last 21 years (the extent of our data set), the average factor has contributed 2.3% of additional return above and beyond the benchmark return (otherwise known as "excess return"). While those numbers haven't been as strong in recent years, nor do we expect that they will be consistently that high in the years ahead, we do believe that a strategic emphasis on factor investing will add value.

This chart shows additional powerful messages:

- Again, factor investing has added value over time.
- Factor investing – like all kinds of investing – has a cyclical nature.
- Despite the cyclical nature, factor investing usually wins in calendar year performance returns. For instance, the average factor has a positive excess return nearly 60% of the time. An equal-weighted average of the 6 factors, however, has a positive excess return over 70% of the time.
- Factor investing does well in all environments, but particularly so in down markets (at least historically).



Factors Deliver More Diversified Risk-Adjusted Returns
2289-CLS-8/16/2016
"Big Six" Global Equity Factors
Positive Excess Return
Negative Excess Return
2008
Min. Volatility +16.8%
Quality +6.1%
Multi-Factor +2.9%
Div. Yield +0.8%
Size -1.1%
Value -1.3%
Momentum -2.8%
2009
Size +7.7%
Value +2.7%
Div. Yield +0.7%
Quality -0.4%
Multi-Factor -4.4%
Momentum -17.1%
Min. Volatility -19.2%
2010
Size +2.4%
Momentum +1.6%
Min. Volatility +0.0%
Multi-Factor -1.2%
Value -2.2%
Quality -2.9%
Div. Yield -6.6%
2011
Min. Volatility +13.2%
Momentum +9.8%
Quality +9.5%
Div. Yield +7.2%
Multi-Factor +5.7%
Value -2.1%
Size -2.7%
2012
Momentum +1.2%
Size +0.7%
Value +0.2%
Multi-Factor -1.2%
Div. Yield -2.0%
Quality -1.4%
Min. Volatility -6.3%
2013
Momentum +3.3%
Value -0.3%
Quality -0.3%
Multi-Factor -2.1%
Size -3.5%
Div. Yield -5.4%
Min. Volatility -6.6%
2014
Min. Volatility +7.1%
Quality +4.4%
Momentum +2.1%
Multi-Factor +1.2%
Size -0.9%
Div. Yield -2.6%
Value -2.8%
2015
Min. Volatility +4.9%
Momentum +4.1%
Quality +3.7%
Multi-Factor +0.6%
Size -2.1%
Div. Yield -3.2%
Value -3.6%
Annual Return
Momentum +4.4%
Quality +3.5%
Div. Yield +2.4%
Multi-Factor +2.3%
Min. Volatility +1.5%
Value +0.7%
Size +0.3%
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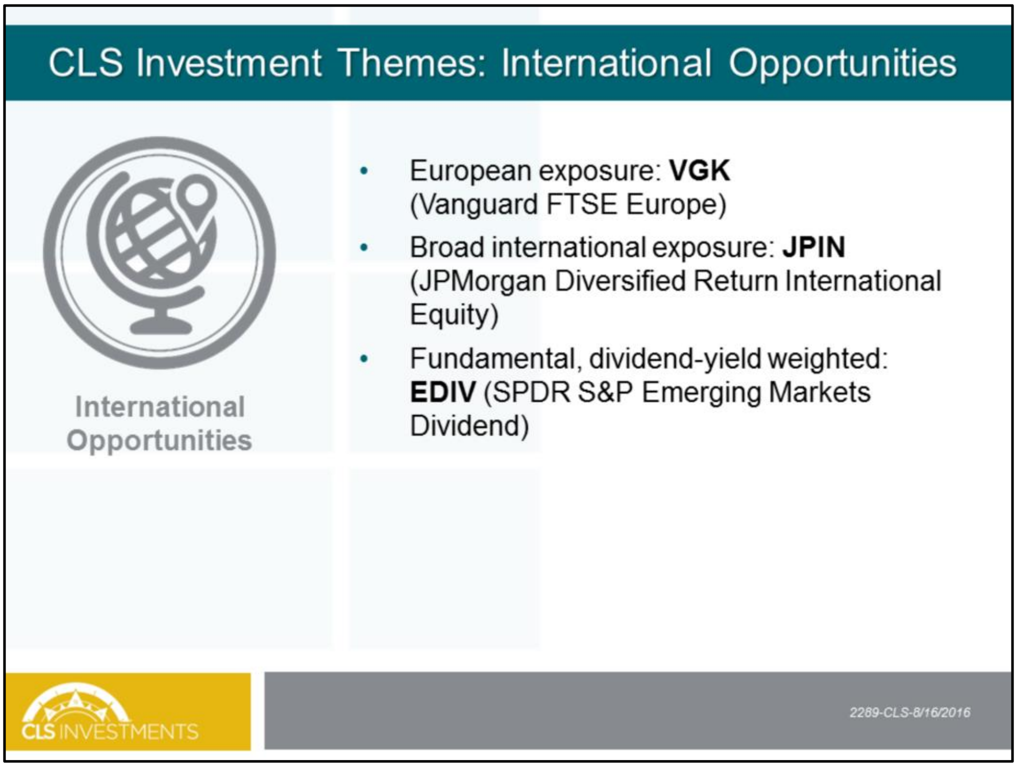
Source: MSCI.com. As of December 31, 2015. Calendar year total returns (net) for MSCI ACWI IMI. Excess returns are shown relative to the MSCI ACWI IMI for each related MSCI ACWI factor index. Dividend Yield denotes MSCI ACWI High Dividend Yield Index. Quality denotes MSCI ACWI Quality Index. Momentum denotes MSCI ACWI Momentum Index. Value denotes MSCI ACWI Value-Weighted Index. Minimum Volatility denotes MSCI ACWI Minimum Volatility Index. Size denotes MSCI ACWI Size Tilt Index. Multi-Factor denotes an equal-weighted portfolio of each MSCI ACWI factor index mentioned. "Index returns are for illustrative purposes. It is not possible to invest directly in an index."

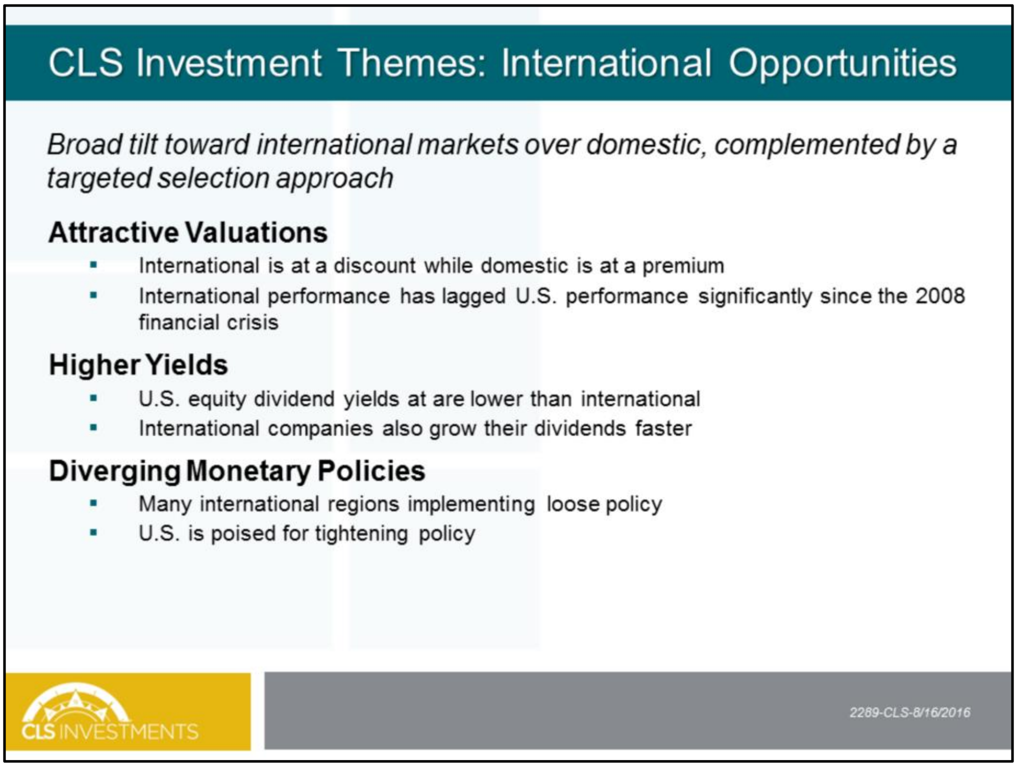


In international markets, valuations are lower, dividend yields are higher, monetary policy reforms are taking hold, and central banks are providing greater support.

While these benefits are powerful, some international markets are facing headwinds, such as unexpectedly sluggish growth. A diversified approach to international investing may be complemented by targeted allocations in specific countries, regions, and sectors.

ETFs that could be used to address this theme include:

VGK (Vanguard FTSE Europe)
JPIN (JPMorgan Diversified Return International Equity)
EDIV (SPDR S&P Emerging Markets Dividend)

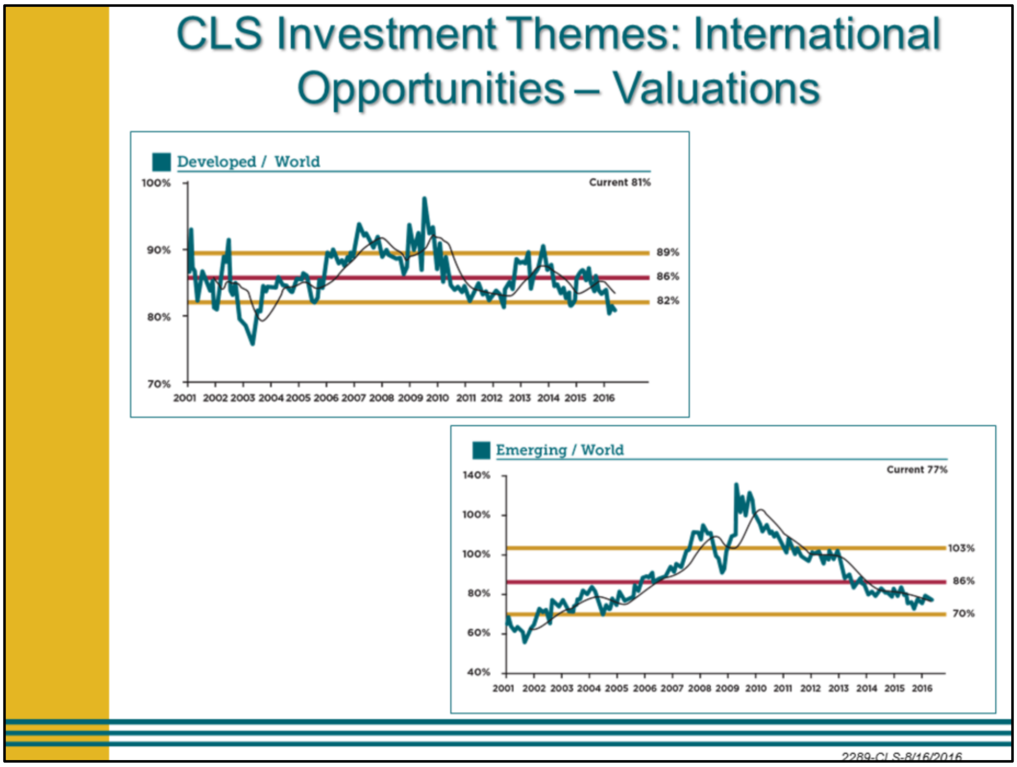


Valuations:
U.S. market is at high relative valuations as compared to most international markets. The U.S. is trading at a premium while international is at a discount.

Performance:

Since the financial crisis in 2008, U.S. equities have outperformed international equities by a wide margin due to their more accommodative policies. While the U.S. market is nearing full recovery, many international markets such as Europe are at the start of their economic recovery and thus are due for a similar advancement in the years to come.

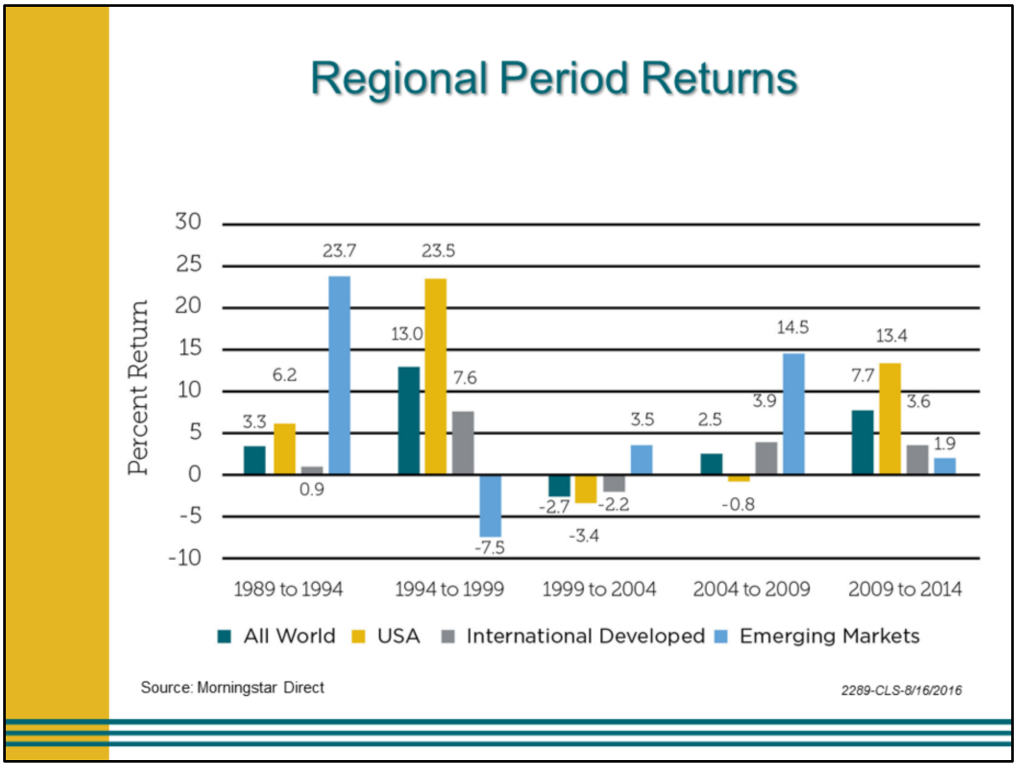
Yield:
International companies tend to not only pay higher dividends, but also grow their dividends faster. International yielders will further benefit from falling rates in their respective countries, while U.S. yielders will face headwinds in a rising interest rate environment.



The developed international markets are not expensive. The developed markets typically trade at a 14% discount to the World. Currently, it is trading at a 19% discount.

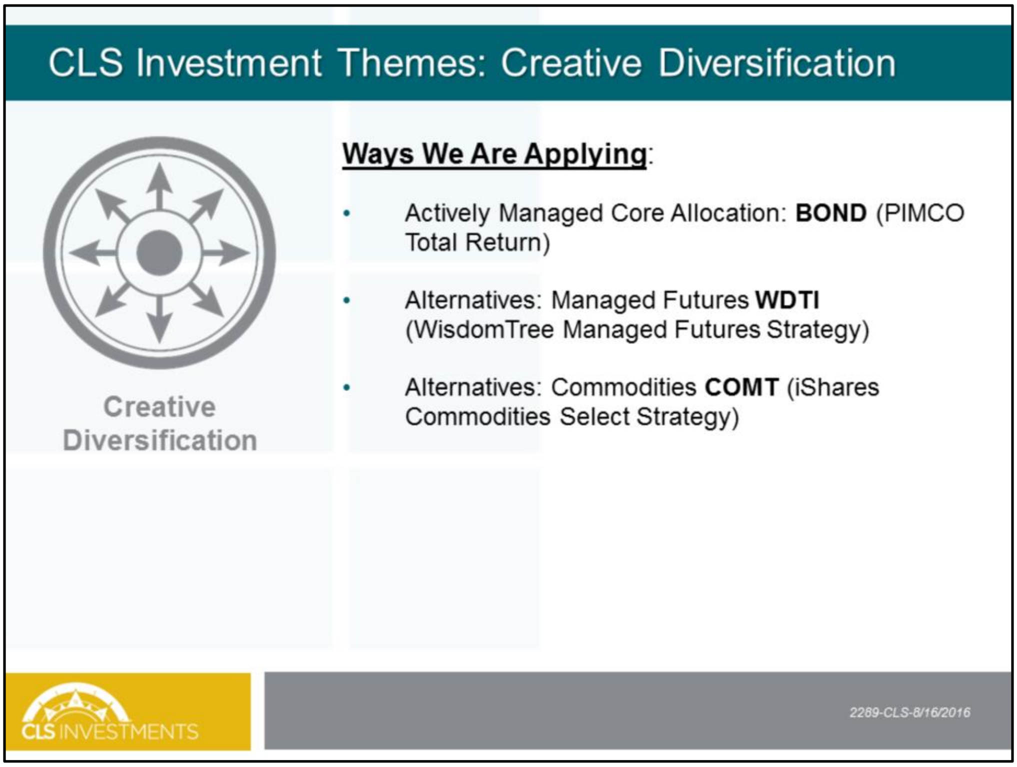
The valuations for emerging markets (EM) also look relatively attractive compared to the rest of the world's valuations.

Since 2001, EM's average relative valuation has tended to trade at 86% of the world's valuation. Currently, however, it is trading at 77%.



As long as there is a gap among returns of different asset classes, significant diversification benefits exist. Historically, there has been a wide dispersion of returns between domestic and international investments.

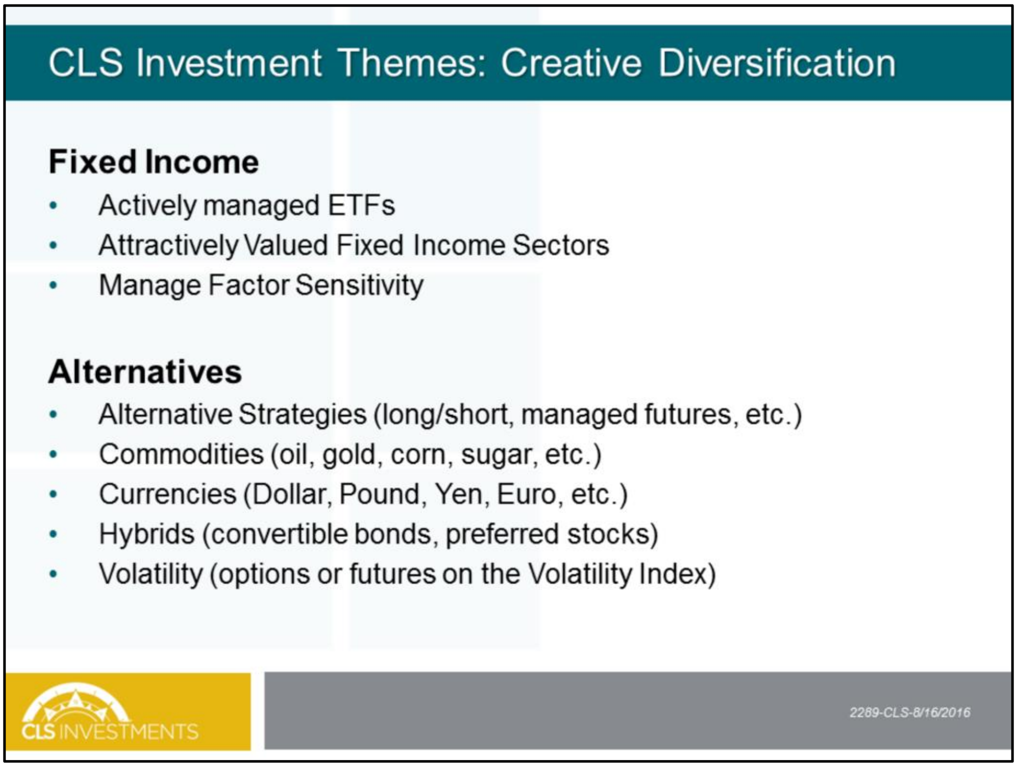
When looking at five-year period returns by broad region, outperformance is variable. Having exposure to the “all world” index would have provided the most stable returns over time.



We continue to be creative in diversifying equity-dominated portfolios, particularly given the low level of interest rates.

We do this in two ways. First, we are active in our fixed income exposures. We actively manage our duration (i.e., interest rate sensitivity), credit, and sector exposures. Second, we use alternative asset class segments and strategies, which can include managed futures, hedge fund strategies, and currencies. This could also mean increased exposure to commodities, many of which are at multi-year price lows.

We will utilize the broad array of ETF offerings to tailor our exposure, including:
- BOND (PIMCO Total Return)
- WDTI (Wisdom Tree Managed Futures Strategy)
- COMT (iShares Commodities Select Strategy)



Fixed Income – Active Allocation

Actively Managed ETFs: Actively managed fixed income ETFs allow us to be active within security selection and through asset allocation. These active managers look for attractive bonds within asset class segments (security selection), while CLS looks for attractive asset class segments as a whole (asset allocation). Combining managers that attempt to achieve superior returns using different methods generally contributes to superior risk-adjusted returns overall.

Attractively Valued Fixed-Income Sectors: CLS is focused on attractively valued fixed income segments, as valuations are one of the best predictors of performance over long-term horizons.

- Large market moves can depress the price of a bond well below its intrinsic value.
- Low inflation expectations have made Treasury Inflation Protected Securities (TIPS) valuations relatively attractive.
- Weakness in the commodity complex, has sharply reduced the value of high yield bonds associated with those sectors. This price weakness has also spread into the debt of other sectors, including some that may actually benefit from lower input prices.

Manage Factor Sensitivity: Being active allows investors to actively adjust portfolios' sensitivity to risk factors based on outlook. The two primary risk factors in fixed income include interest rate risk and credit risk. Duration is currently positioned below the benchmark by using ETFs with short maturities and/or floating rates.

Alternatives: Below are the investment areas that CLS considers alternatives.

Alternative Strategies: Managed futures, hedge fund replication, merger arbitrage, market neutral, long short, and hedged equity strategies fit into this broad bucket. These strategies typically include both long and short positions.

Commodities: Commodities are one of the more common alternatives to traditional stocks and bonds. Commodity ETFs will generally either hold commodity futures contracts or the physical commodity.

Currencies: There are a number of ETFs focused on currencies, both long and short. It is worth noting that we consider currencies alternatives, but currency-hedged ETFs are not considered alternatives as they are still designed to provide the returns of a specific equity market.

Hybrids: Hybrid securities are a combination of stocks and bonds, such as convertible bonds or preferred stocks. At a certain point, depending on the asset's price, a convertible bond behaves like equity, and at other times it behaves like a bond. Similarly, preferred stocks have income characteristics similar to bonds, but they typically do not have a maturity date or maturity value, similar to a stock.

Volatility: There are a number of ETFs that take long and short positions in futures or options on the CBOE Volatility (VIX) Index. These ETFs are mostly trading and hedging vehicles and should be considered alternatives.

In Review

Stocks: Stay Global

- We expect below-average returns from U.S. equities
- We expect better returns from international equities

Bonds: Be Flexible

- Return expectations are also tempered
- Bonds still have a role, but investors need to be active with bond positioning

CLS Investment Themes

- X-Factor: smart beta ETFs and factor-based risk management
- International Opportunities: overseas markets offer higher expected returns
- Creative Diversification: active use of fixed income; use of alternatives

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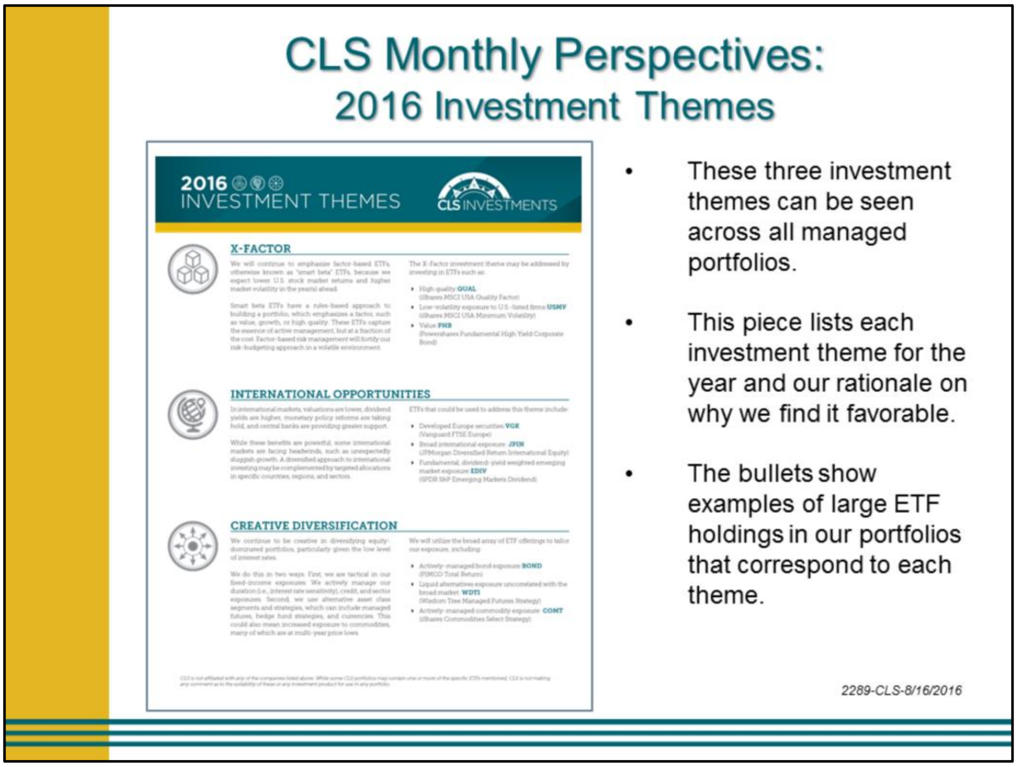
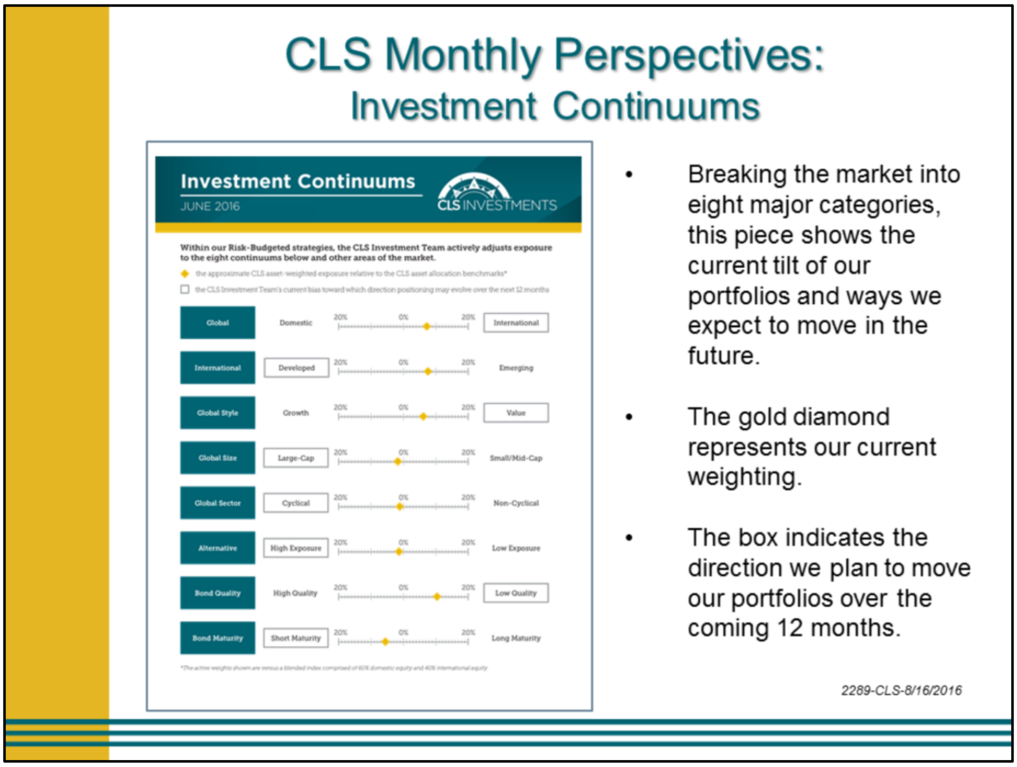
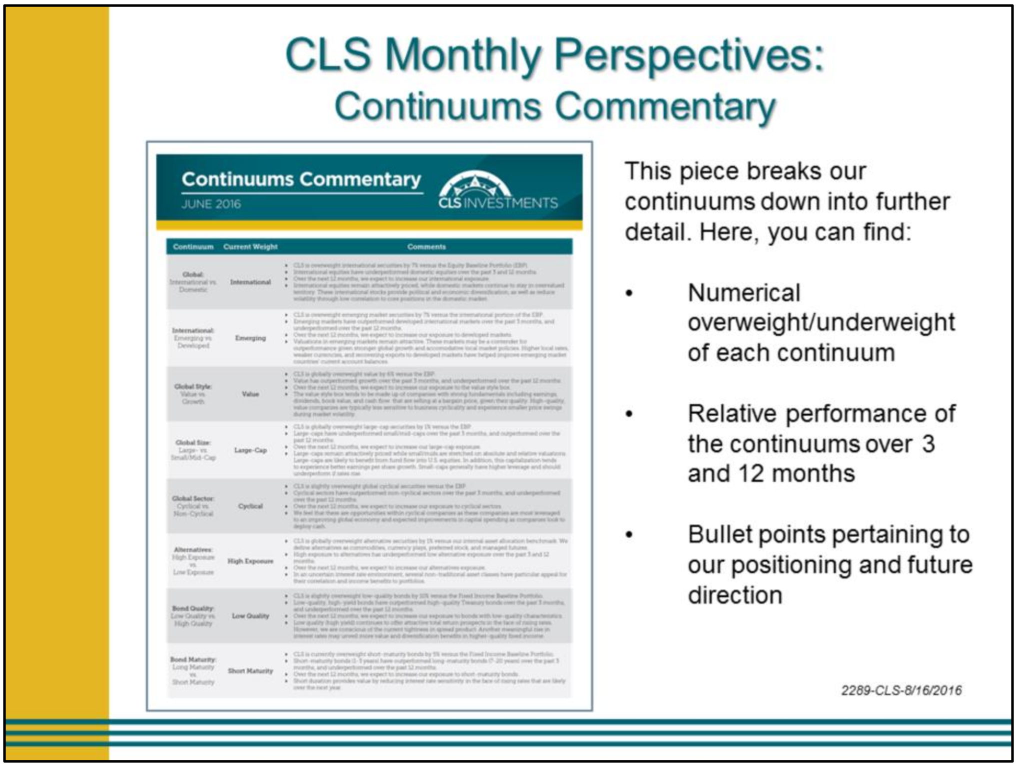
To reiterate: Regarding stocks, CLS suggests staying global. We expect below-average returns from U.S. equities and better returns from international equities in the coming years. On bonds, we recognize that it's important to be flexible. Return expectations are tempered. Bonds still have a role, but investors need to be active with bond positioning. We will center our investment management around our three Investment Themes going forward.



Our three Investment Themes can be seen across all of our managed portfolios. The piece shown on this screen lists each investment theme for the year and our rationale on why we find it favorable. The bullets show examples of large ETF holdings in our portfolios that correspond to each theme.

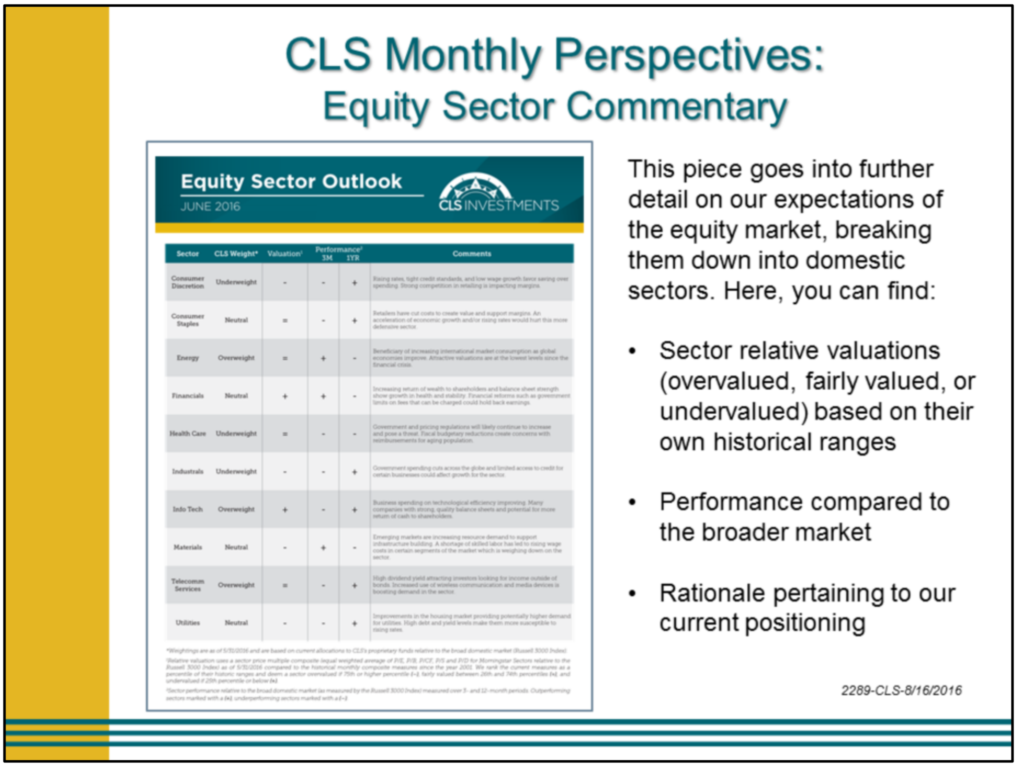


CLS's Investment Continuums piece breaks the market into eight major categories, showing the current tilt of our portfolios and ways we expect to move in the future. The gold diamond on the piece represents our current weighting, and the box indicates the direction we plan to move our portfolios over the coming 12 months.



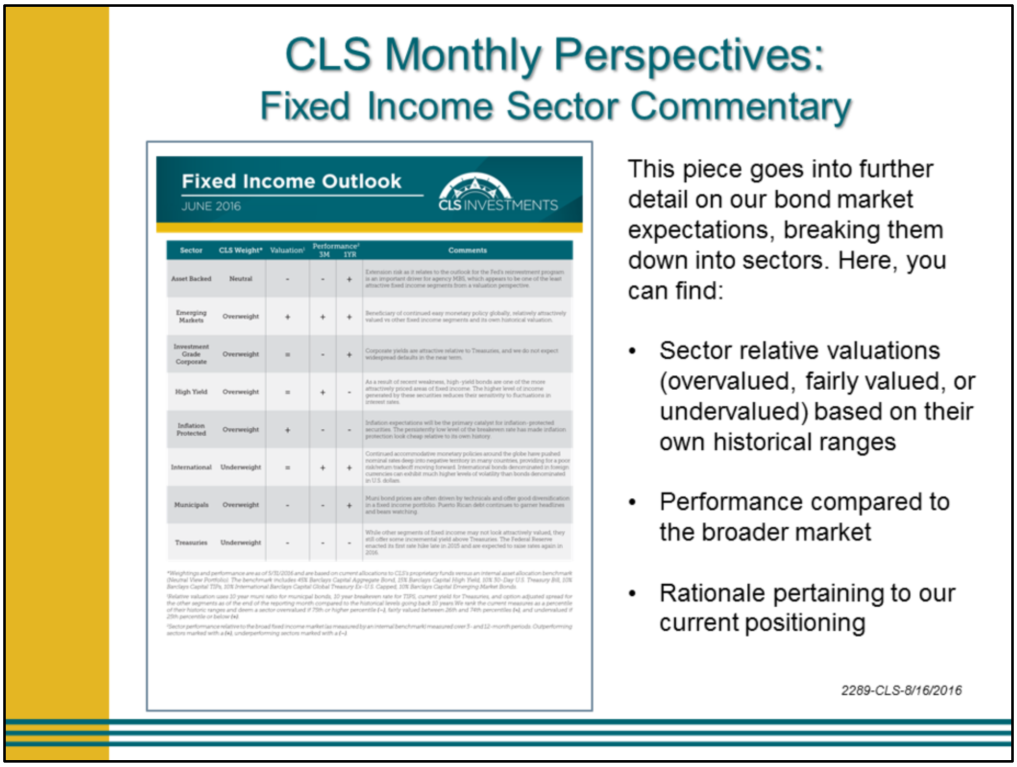
Our Continuums Commentary piece breaks our continuums down into further detail. Here, you can find:

- Numerical overweight/underweight of each continuum
- Relative performance of the continuums over three and 12 months
- Bullet points pertaining to our positioning and future direction



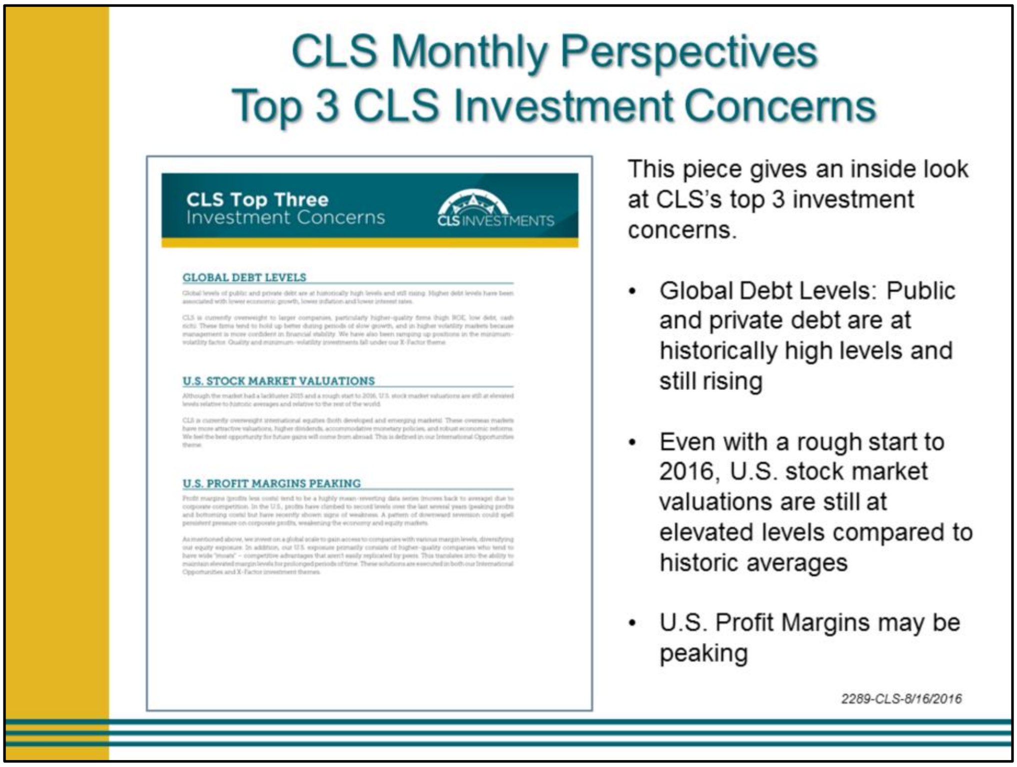
The Equity Sector Outlook goes into further detail on our expectations of the equity market, breaking them down into domestic sectors. This piece provides:

- Sector relative valuations (overvalued, fairly valued, or undervalued) based on their own historical ranges
- Performance compared to the broader market
- Rationale pertaining to our current positioning

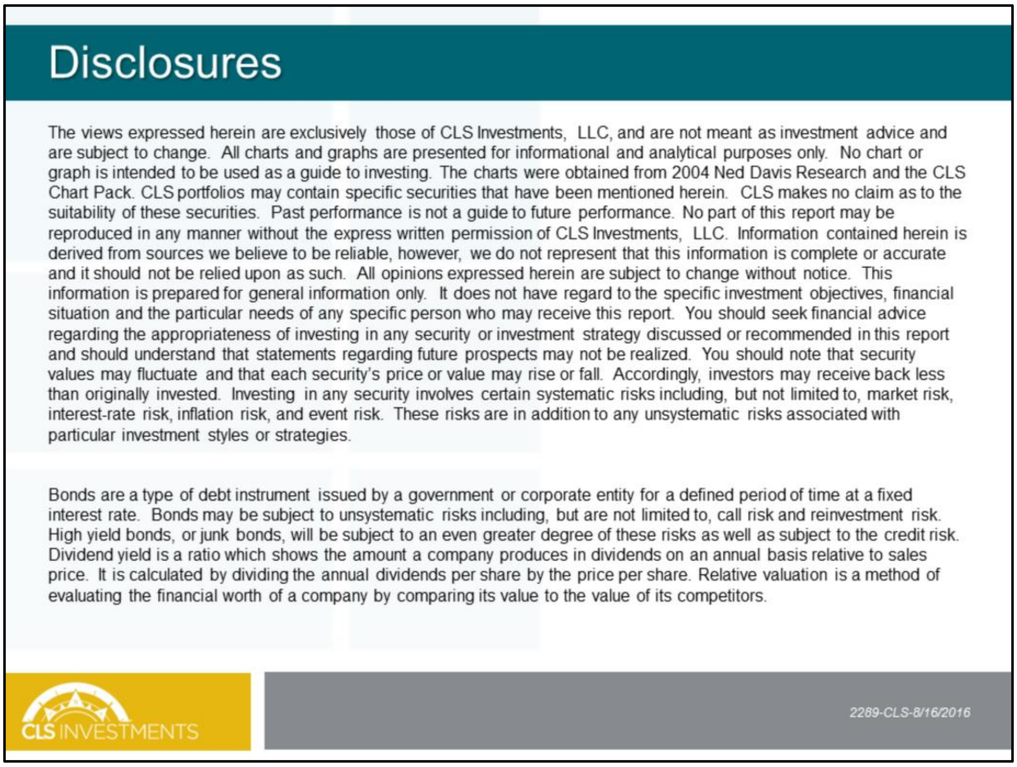


Our Fixed Income Outlook goes into further detail on our bond market expectations, breaking them down into sectors. This piece details:

- Sector relative valuations (overvalued, fairly valued, or undervalued) based on their own historical ranges
- Performance compared to the broader market
- Rationale pertaining to our current positioning



This piece gives an inside look at CLS's top three investment concerns. Each month, CLS explores market activity and tries to pinpoint areas where advisors and investors should be paying attention. This piece is beneficial as it gives a high level overview of each concern, providing talking points for advisors, and helpful insights for investors.



This concludes our market outlook for the third quarter of 2016. We invite you to view this information in both pdf and video format at CLSinvest.com/QMO.

Disclosures

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. Alternative investing refers to the practice of investing in any asset class other than stocks, bonds, or cash (otherwise known as the “traditional” asset classes). Alternative investments may include managed futures, real estate, commodities, derivatives, etc. Unsystematic risks will heavily depend on the specific investment and may include, but are not limited to, business risk, liquidity risk, and capital 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.

The 12-month outlooks contain probabilities based on calculations from CLS portfolio managers and research analysts. The outlook includes equal-weighted portfolio manager forecasts in five different return categories. The analyst team is equal weighted to count as a single portfolio manager vote. Historical probabilities for the categories are also researched. Overall views presented have been adjusted based on perceived value by each portfolio manager and analyst.

Disclosures

The S&P 500® Index is an unmanaged composite of 500-large capitalization companies. This index is widely used by professional investors as a performance benchmark for large-cap stocks. 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 Russell 2000® is an index comprised of the 2,000 smallest companies on the Russell 3000 list and offers investors access to small-cap companies. It is a widely recognized indicator of small capitalization company performance. The iShares MSCI Emerging Markets ETF is an exchange traded fund which seeks to provide investment results that correspond generally to the price and yield performance, before fees and expenses, of publicly traded securities in emerging markets, as represented by the MSCI Emerging Markets Index. The MSCI EAFE International Index is a composite index which tracks performance of international equity securities in 21 developed countries in Europe, Australia, Asia, and the Far East. 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 Barclay's Capital U.S. Aggregate Bond® Index measures the performance of the total United States investment-grade bond market. 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. 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. An index is an unmanaged group of stocks considered to be representative of different segments of the stock market in general. You cannot invest directly in an index.

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