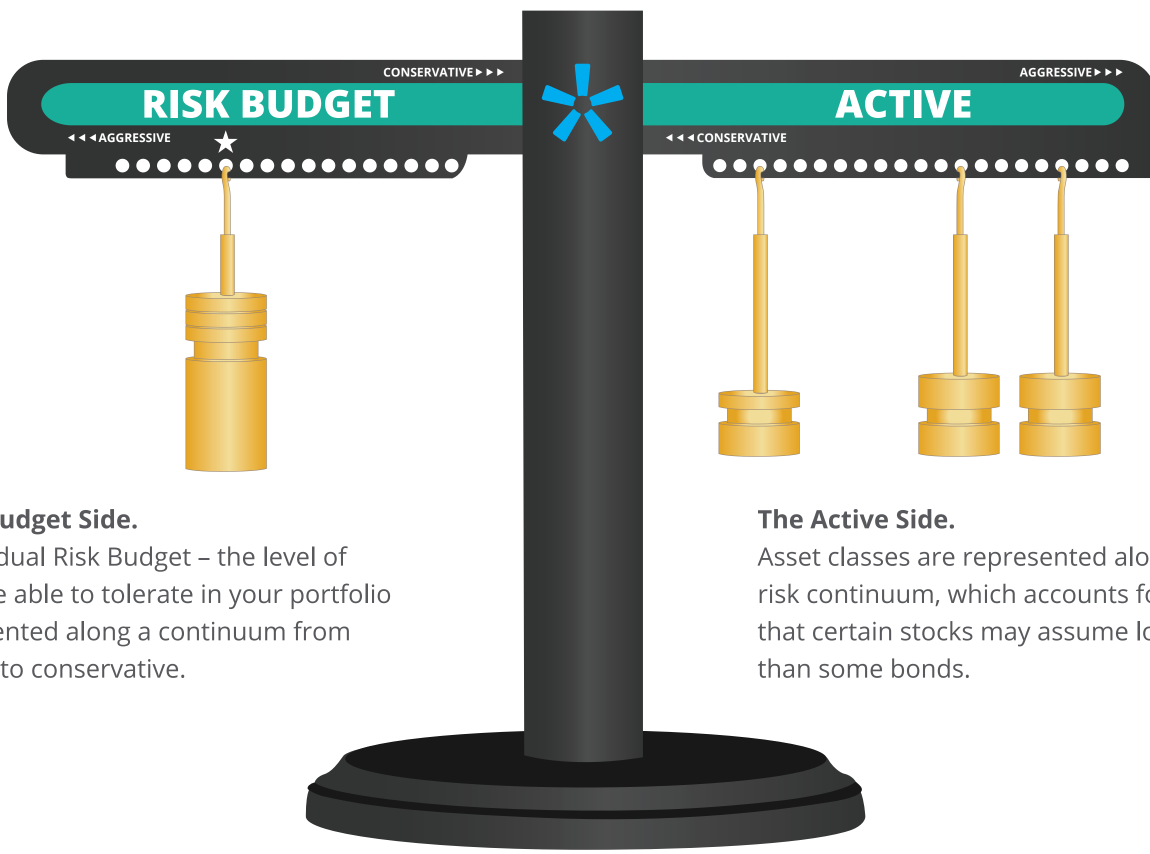
Market Risk Changes

The Risk In Your Investment Portfolio Should Not

The risk associated with various asset classes changes over time.

CLS's Risk Budgeting Methodology allows us to make adjustments to asset class holdings in your investment portfolio to offset these changes. Much like a scale keeps weight balanced, Risk Budgeting ensures that the actual amount of risk in your portfolio is always equal to the level appropriate for your individual financial goals and investment time horizon.CLS pays referral fees to advisors (you, also known as "referring advisors") who introduce us to other advisors ("referred advisors").

The CLS Risk Budgeting Scale



The Risk Budget Side.
Your individual Risk Budget – the level of risk you are able to tolerate in your portfolio – is represented along a continuum from aggressive to conservative.

The Active Side.
Asset classes are represented along the same risk continuum, which accounts for the fact that certain stocks may assume lower risk than some bonds.

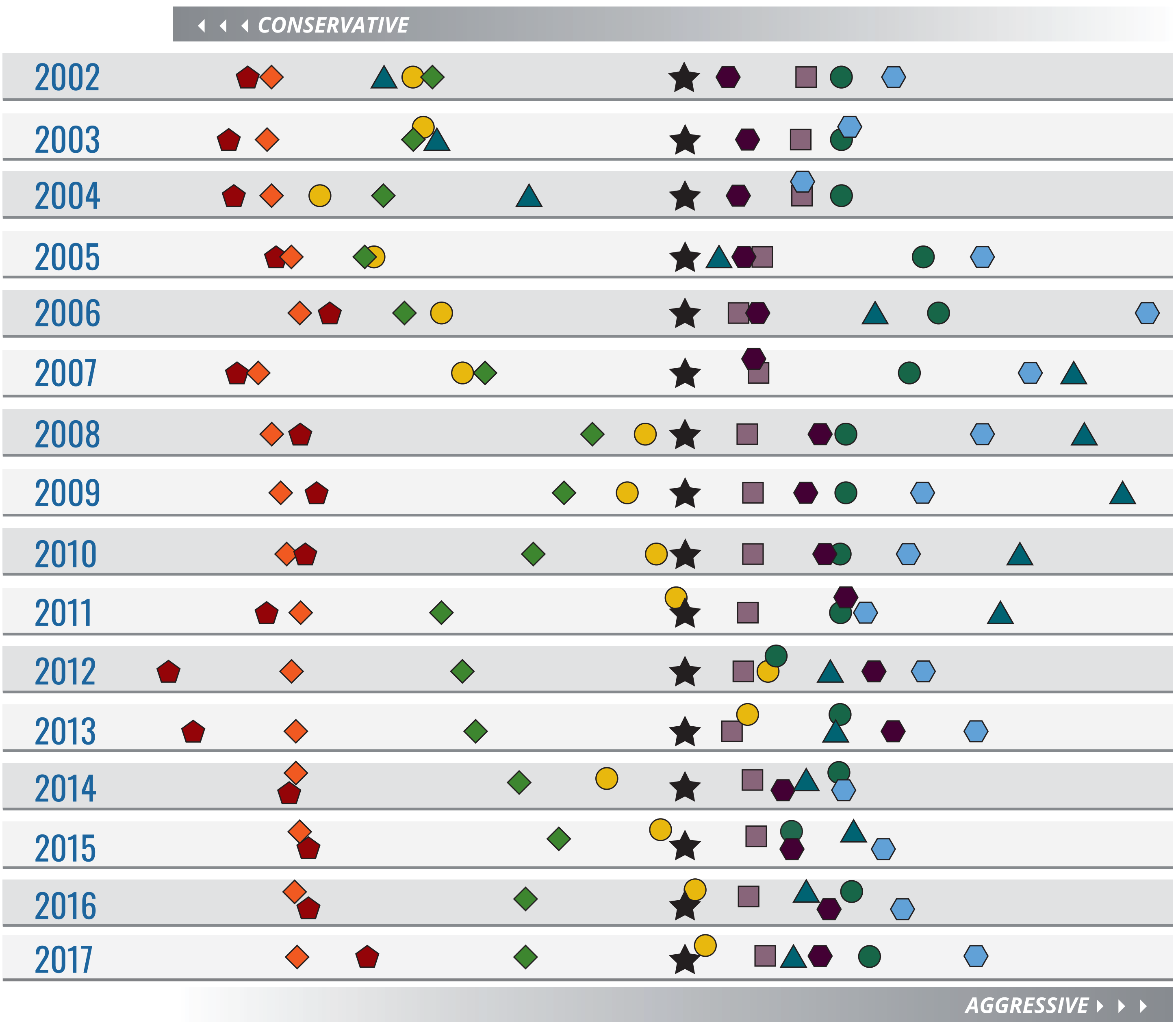
When markets change and different asset classes become attractive, moves are made within your portfolio in an attempt to take advantage of those attractive areas. If a move makes the portfolio too aggressive or too conservative, an adjustment is made to keep the portfolio in balance with your specified Risk Budget. **CLS is always seeking outperformance for your portfolio while keeping your risk constant.**

Keeping Risk Constant

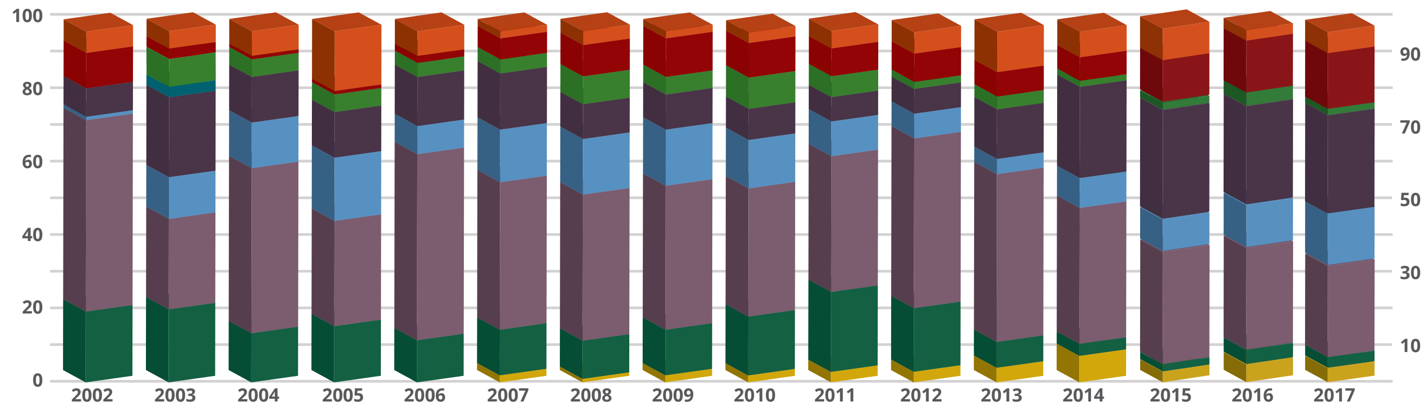
These charts illustrate how CLS adjusted allocations within a Risk-Budgeted portfolio in response to changing market conditions and asset class risk levels between December 31, 2002 and December 31, 2017.

The star on the risk continuum below represents a CLS portfolio with a Risk Budget of 80. You can see how the level of risk within the portfolio remained constant even as risk in various asset classes changed dramatically. By viewing stocks and bonds on the same continuum instead of relying on a stock-to-bond ratio, CLS can overweight favorable asset classes while keeping portfolio risk relatively constant, even as the portfolio changes.

- Short-Term Bonds / Cash
- Intermediate / Long-Term Bonds
- High-Yield Bonds
- Real Estate
- Developed International
- Emerging Markets
- Large-Cap
- Small / Mid-Cap
- Other
- CLS Portfolio - Risk Budget 80



Adjusting to Market Changes



2002. Believing stocks to be oversold, CLS positioned portfolios for a market rally by allocating about 84% to stocks, with the largest positions in large-cap domestics.

2003. Allocations to emerging markets (i.e., Brazil, China, Mexico) were increased since they exposed investors to rapidly-growing countries with attractive valuations. Risk in this asset class was lower than normal, so CLS reduced large-caps in favor of emerging markets, developed international, high-yield bonds, and a small allocation to real estate.

2004. CLS reduced developed international exposure and increased large-caps, since those stocks were positioned to benefit from higher levels of economic growth. CLS exited real estate altogether due to concerns about valuations.

2005. Emerging markets established themselves as the key source of global economic growth. Significant opportunity for return still existed in this asset class, but the risk level had increased, so CLS added short-term bonds to keep overall portfolio risk in balance.

2006. Risk in emerging markets increased further. Since CLS was concerned about the long rally in the asset class and the low returns of short-term bonds, these positions were reduced in favor of large-caps.

2007. CLS took advantage of the expanding exchange traded fund (ETF) universe by including commodities (i.e., corn, gold, and oil) in the portfolios. Commodities are represented within the “other” category in the charts displayed.

2008. The real estate bubble burst. The portfolios were underweight real estate, so they weathered the early months of the economic downturn well. However, when it quickly spread somewhat indiscriminately to other asset classes, CLS portfolio managers faced difficult decisions. CLS held emerging markets positions and continued to overweight growth within large- and small/mid-caps since both had secular growth stories in a slow growth world. High-yield bonds were viewed as attractive, but CLS reduced developed international exposure due to concerns over global competitiveness, particularly in Europe.

2009. Rationality gradually returned to the market. The discipline to hold emerging markets and the flexibility to use high-yield bonds benefited clients as markets stabilized. Few changes were made in portfolios.

2010. The market rally was well-established and CLS increased portfolio allocations to small/mid-caps, the higher risk of which was offset by an increase in short-term bonds and a slight decrease in emerging markets.

2011. Europe and the Middle East dominated the news, and concerns were raised regarding economic expansions in the U.S. and China. While the U.S. stock market was up slightly, international stock markets generally declined. CLS adjusted portfolios by reducing developed international and emerging markets. The risk was relocated primarily to small/mid-cap stocks.

2012. U.S. and developed international stock markets put in impressive double-digit gains. Developed international stocks remained vulnerable and strong performance in high-yield and small/mid-caps made these asset classes less attractive. Portfolios transferred risk to large-cap domestic stocks, which showed attractive fundamentals.

2013. Developed markets continued their impressive run higher, while emerging markets lagged. Small/mid-caps showed increased risk levels and positions were reduced during the year. Developed international allocations increased during the year, which performed well in 2013, but not as well as small/mid-caps.

2014. The range of risk scores narrowed and CLS adjusted its benchmark to reflect the importance of international markets and alternatives. The normal stock allocation to international increased to 40%. Portfolios increased allocations to developed and emerging international stock markets to reflect the new benchmark.

2015. Asset class risk scores remained compressed. Emerging market risk remained low compared to recent years. Concerns over potential interest rate increases carried over from 2014 and the diversification benefits of intermediate/long-term bonds were reduced. High-yield bonds increased in risk over concerns about energy.

2016: Political events in 2016 pushed the risk of emerging markets, developed international, and small/mid-caps higher. High-yield and real estate risk fell in an environment favoring high-yielding securities that benefit from improved economic growth.

2017: Volatility was very low and some areas of the market experienced decreased risk, including international stocks. Geopolitical tensions were subdued, performance was strong, and correlations decreased. CLS maintained a strong tilt toward these areas of the global market.

The CLS Portfolio Allocation represents the allocation of model portfolios managed identically to the actual profiles of clients in the managed accounts participants' program with a risk budget of 79 to 82. Allocations for clients utilizing other models will vary. Actual account holdings for individual clients may vary. Investments are not guaranteed and will fluctuate, so that when redeemed, may be worth more or less than their original cost. Results were obtained over a variety of market and economic conditions.

The definitions of asset classes noted in the CLS Allocations charts are as follows: Emerging Market – seeks capital appreciation by investing primarily in equity securities issued in emerging markets worldwide and/or small companies worldwide. The majority of the dollars in these funds are in foreign securities. International – funds that seek capital appreciation by investing heavily in foreign equity securities; U.S. stocks may or may not be held. Small/ Mid-Cap Growth – funds with the objective of capital appreciation that invest in companies with a market capitalization of between $300 million and $10 billion and reinvest their earnings into expansion, acquisitions, and/or research and development. Small/Mid-Cap Value – funds with the objective of objective is capital appreciation with some income that invest in companies with a market capitalization of between $300 million and $10 billion and reinvest their earnings into expansion, acquisitions, and/or research and development. Large-Cap Growth – funds that consist primarily of common stocks or related securities of larger companies with the objective of long-term growth through capital appreciation. Large-Cap Value – funds that invest in larger companies that appear to be overlooked or out of favor with the objective of capital appreciation with some income. Real Estate – funds that invest in real estate directly, either through properties or mortgages. Commodity – funds that consist primarily of securities of basic goods used in commerce that are interchangeable with other commodities of the same type. High-Yield Bonds – seek income by generally investing 80% or more of its assets in bonds rated below BBB. High-yield bond funds function neither quite like taxable bond funds nor like equity funds. Intermediate/Long-Term Bonds – bonds that seek income by investing in a blend of government and/or corporate securities with an average maturity of generally more than 2 years. Short-Term Bonds/ Cash – bonds that seek income by investing in a blend of government and/or corporate securities with an average maturity of generally less than 3 years or assets that can be converted into cash immediately.

The risk associated with each asset class on the "Asset Class Risk Levels" charts is the risk of the asset class after adjustment for CLS proprietary risk indicators relative to the volatility of a well diversified equity portfolio. The indices on the chart are as follows: Emerging Market: MSCI Emerging Markets Index - a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. International: MSCI EAFE – a free-float-adjusted market-capitalization index that is designed to measure developed market equity performance, excluding the U.S. and Canada. Small/Mid Growth: Russell Mid-Cap Growth (60%) - measures the performance of the mid-capitalization growth sector of the U.S. equity market as a subset of the Russell Midcap Index. Russell 2000 Growth (40%) - measures the small-capitalization growth sector of the U.S. equity market. Small/ Mid Value: Russell mid cap Value (60%) - a subset of the Russell Midcap Index. Russell 2000 Value (40%) - measures the small-capitalization value sector of the U.S. equity market, is a subset of the Russell 2000 Index. Large Cap Growth: S&P/Citigroup Growth - an unmanaged capitalization weighted index composed of the highest price-to-book ratio securities in the S&P 500 Index. Large Cap Value: S&P/Citigroup Value - an unmanaged capitalization weighted index consisting of those stocks within the S&P 500 Index that exhibit strong value characteristics. Real Estate: Wilshire Reit - designed to provide measures of real estate securities that serve as proxies for direct real estate investing. High-Yield Bonds: CSFB High Yield - designed to mirror the investible universe of the US-denominated high-yield debt market. International Bond: Citi WBIG Index - a market capitalization weighted index that tracks the performance of international fixed rate bonds that have remaining maturities of one year or longer and that are rated BBB-/Baa3, or better, by S&P or Moody's, respectively. Intermediate/Long Term Bonds: Barclays Capital U.S. Aggregate Bond - a broad representation of the investment-grade fixed income market in the US including government and corporate debt securities, mortgage- and asset-backed securities, and international US dollar denominated bonds. Short Term Bonds/Cash: 3 month T-Bill - a short-term debt obligation backed by the U.S. government with a maturity of 3 months.

You can not directly invest in an index. Past performance is not indicative of future results.

There are risks associated with Bond Funds. These risks include, but are not limited to, the same interest rate, inflation, and credit risks associated with the underlying bonds owned by the portfolio and your return of principal is not guaranteed. High Yield bonds may be subject to greater fluctuations in value and risk of loss of income and principal. Investing in emerging markets involves greater risk and potential reward than investing in more established markets. Risks for emerging markets include, for instance, risks relating to the relatively smaller size and lesser liquidity of these markets, high inflation rates and adverse political developments. Foreign securities may be subject to unstable international political and economic conditions, currency fluctuations, foreign controls on investment and currency exchange, withholding taxes, a lack of adequate company information, less liquid and more volatile markets, and a lack of governmental regulation may subject foreign securities to risk. An ETF is a type of investment company whose investment objective is to achieve the same return as a particular market index. An ETF is similar to an index fund in that it will primarily invest in the securities of companies that are included in a selected market index. An ETF will invest in either all of the securities or a representative sample of the securities included in the index. ETFs indirectly bear investment management fees of the underlying funds in addition to the fees and expenses of the ETF. In some instances it may be less expensive for an investor to invest in the underlying funds directly. There is also a risk that investment advisers of those underlying funds may make investment decisions that are detrimental to the performance of the ETF. Transactions in securities futures, commodity and index futures and options on futures carry a high degree of risk. The amount of initial margin is small relative to the value of the futures contract, meaning that transactions are heavily leveraged. A relatively small market movement will have a proportionately larger impact on the funds you have deposited or will have to deposit: this may work against you as well as for you.

A client's risk budget is derived from the client's specific answers to CLS's Confidential Client Profile questionnaire, which establishes the client's financial goals, ability to handle risk, and overall investment time horizon. The individual client risk budget is expressed as a percentage of the risk of a well diversified equity portfolio.

This material does not constitute any representation as to the suitability or appropriateness of any security, financial product, or instrument. 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. It should not be concluded that the allocation adjustments shown were profitable.

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