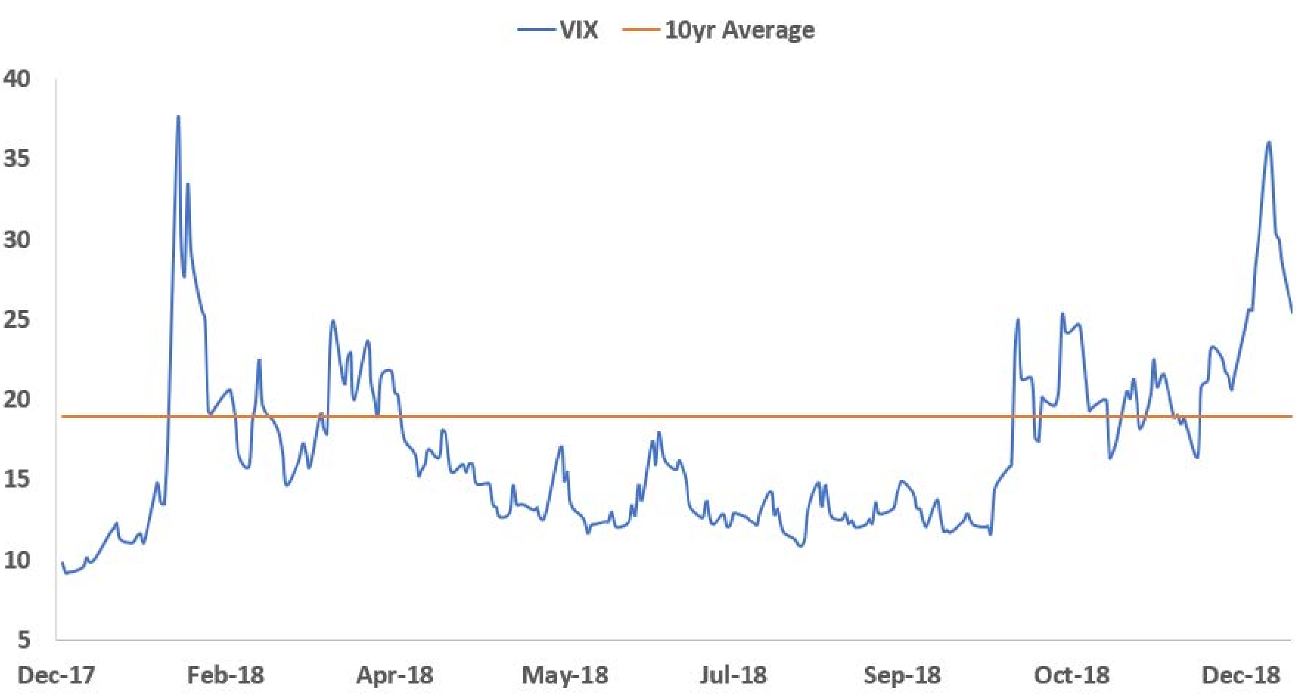
## Global Market Review

The year that just ended was one of the most challenging since the Great Financial Crisis of 2008. International equity markets declined over 14%, international currencies declined by approximately 4%, commodities dropped almost 13%, and the U.S. equity market fell almost 5%. This negative financial performance occurred in a context on strong economic growth, strong consumer confidence, and strong manufacturing confidence. Central banks, collectively, maintained accommodative monetary policy; however, towards the end of the year, market expectations of various central banks began to change. Growth remained a key concern as trade and the threat of a trade war between the U.S. and China was a central theme during the year. In the following paragraphs, we delve deeper into many of last year's performance drivers.

## Increasing Volatility

During 2018, financial market volatility returned to the market. The CBOE SPX Volatility Index, a broad measure of equity implied volatility, rose 130%, from 11.04 as of 12/31/2017 to 25.42 as of 12/31/2018. The financial market volatility observed in 2017 was abnormally low and in 2018, it reverted. Financial markets experience two volatility spikes starting in February and December of 2018. Many investors pointed to a U.S. central bank that was unwinding its balance sheet and raising its short-term rates as catalysts for increased volatility. Yet, in 2017 the U.S. central bank was already reducing its balance sheet and raising short-term rates. Throughout the Year, the market also became hyper-focused on the evolving trade negotiations between the U.S. and China. Despite the U.S. and China being the world's two largest economies, based on gross-domestic-product, the trade between the two countries represents only a small percentage of global trade. These negotiations were not resolved at the end of the year and will likely be a key driver of financial market performance moving forward.

## Figure 1. Evolution of The CBOE SPX Volatility Index

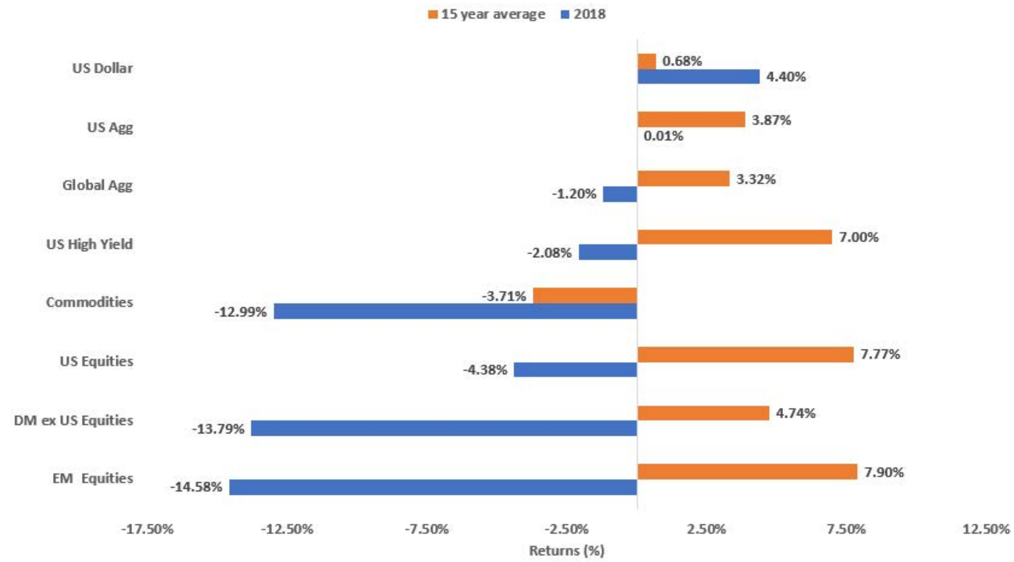



*Source: Innealta Capital using Bloomberg. Timeframe 12/31/2008 to 12/31/2018. "10-yr Average" refers to the ten-year simple average using monthly data from 12/31/2008 to 12/31/2018. Past performance is not indicative of future results.*

## Mixed Returns

Unlike 2017, during which all global equity markets returned above-average positive returns, financial market returns during 2018 were predominantly negative. Across equities, the U.S. equity market, as measured by the S&P 500 declined 4.38%, while international equity markets, denominated in U.S. dollars, also produced negative returns - the MSCI All Country World ex. U.S. Net USD index declined 14.2%. Within fixed income markets, the Bloomberg Barclays Global Aggregate Bond Index fell 1.2% and the Bloomberg Barclays US High Yield Corporate Index fell 2.08% while the Bloomberg Barclays US Aggregate Bond Index ("the Agg") rose 0.01%. Many of the broad-based measurements of equities, fixed income and commodities performance underperformed their respective long-term trend returns. This result, in our opinion, was rather peculiar given the strong backdrop of economic growth and consumer confidence in all regions.

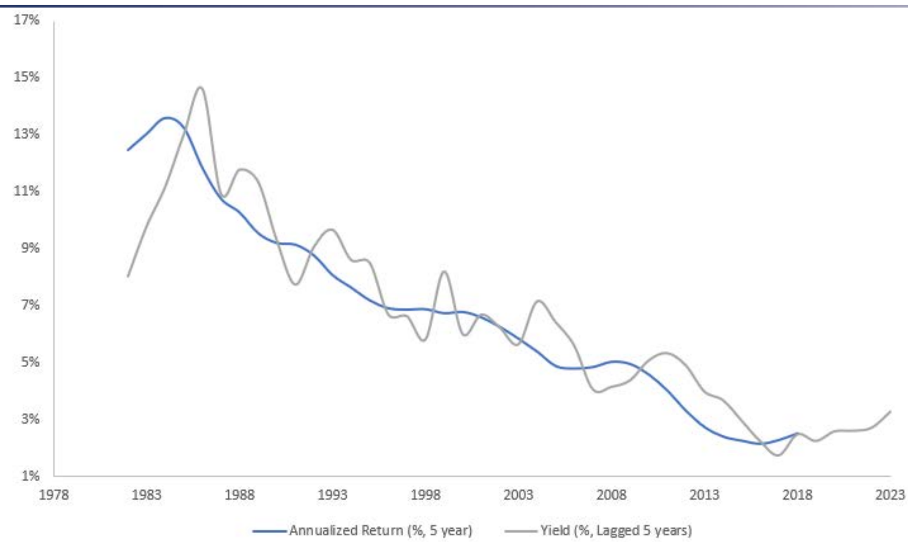
## Figure 2. Broad Market Performance




*Source: Innealta Capital using Bloomberg. Time frame 12/31/2008 to 12/31/2018. "15 year average" refers to the annualized return from 12/31/2008 to 12/31/2018. "the Year" refers to the return from 12/31/2008 to 12/31/2018. "U.S. Dollar" refers to the U.S. Dollar Index. "Commodities" refers to the Bloomberg Commodities index. "U.S. Equities" refers to the S&P 500 Total Return Index. "US Agg" refers to the Bloomberg Barclays US Aggregate Bond Index. "Global Agg" refers to the Bloomberg Barclays Global Aggregate Bond Index. "US High Yield" refers to the Bloomberg Barclays US Corporate High Yield Total Return Index. "DM ex US Equities" refers to the MSCI EAFE Net Total Return Index. "EM Equities" refers to the MSCI Emerging Markets Net Total Return Index. Past performance is not indicative of future results.*

Over the year, the relationship between fixed income and equities continued to evolve. Traditional fixed income did not offer the "safe-haven" status as it did in previous periods when equity markets declined. In 2018 U.S. fixed income, as measured by the Bloomberg Barclays U.S. Aggregate bond index, appreciated only 0.01% and International fixed income, as measured by the Bloomberg Barclays Global Aggregate bond index, declined 1.20%. In our opinion, the low all-in yield levels of most traditional fixed income securities such as U.S. Treasuries or investment grade credit, will continue to limit its longer-term expected return. For example, comparing the rolling five-year annualized return of the Agg to the yield of the Agg five years ago, a clear trend shows that as the yield has decreased so has the returns. This makes both intuitive and economic sense as the coupon component of fixed income driver most of the return.

## Figure 3. Fixed Income Performance Relative to Fixed Income Yields

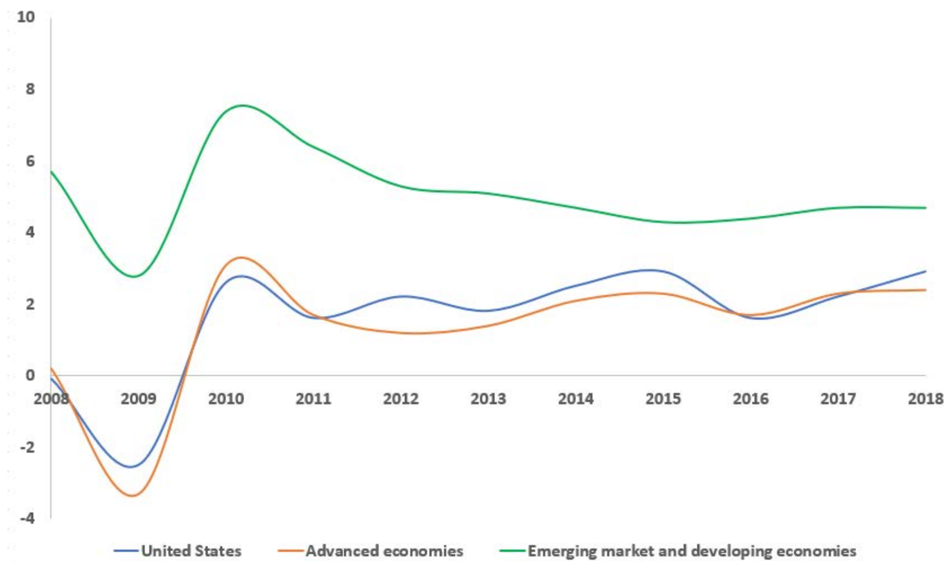



*Source: Innealta Capital using Bloomberg. Timeframe 12/31/1977 to 12/31/2018. The Bloomberg Barclays U.S. Aggregate bond index used as fixed income proxy. "Yield" refers to yield-to-worst. Yield value lagged by five years. Past performance is not indicative of future results.*

## Economic Growth

Whereas as financial market and macroeconomic events during the twelve months preceding the Year could be described as growing and stable, financial market and macroeconomic events during the Year were tense and volatile. Economic growth, throughout the Year, remained the stalwart positive indicator as the U.S economy continued to expand - nominal GDP at the end of September 2018 was 5.5% versus a reading of 4.2% in September 2017. Additionally, on an inflation adjusted basis, real GDP, both current and forecasts, appear stable and not in the stressed environment like in 2008. U.S inflation increased modestly as the U.S. Personal Consumption Expenditure, also known as the "PCE Deflator", increased to 1.88% (11/30/2018) from 1.61% (11/30/17). Despite the actual growth, financial markets became fixated on the potential growth impact from a trade war between the U.S. and China, who collectively account for approximately 5% of global trade. Tariff actions on both sides contributed to an increase in currency volatility, higher interest rates, and a decrease of confidence within Emerging Markets assets.

## Figure 4. Macroeconomic Growth Across Regions

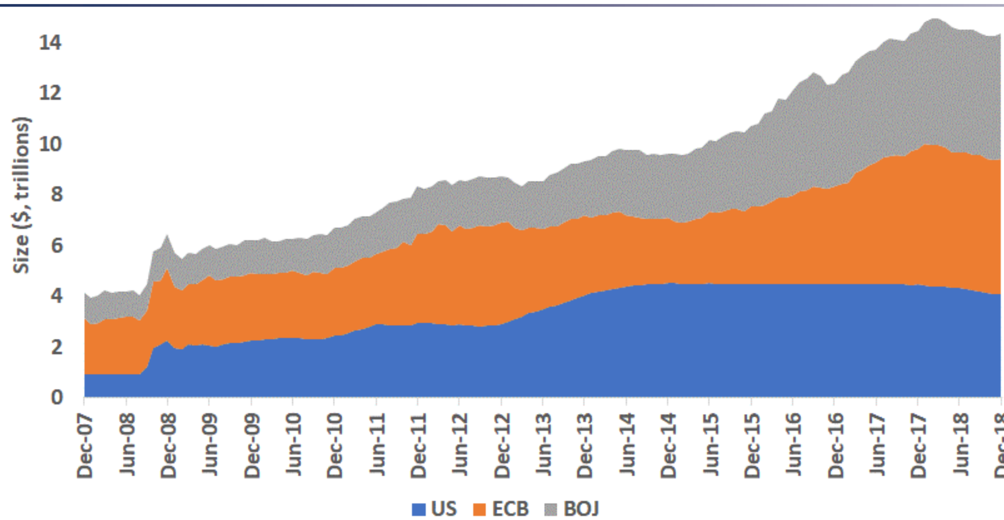



*Source: Innealta Capital using IMF data. "United States" refers to the United States. "Advanced economies" refers to developed market economies including the United States. Time frame 12/31/2008 to 12/31/2018. Past performance is not indicative of future results.*

## Monetary Policy

Central banks remained a key focus for financial markets in the past year as monetary policy continue to diverge. Within the U.S., the U.S. Federal Reserve Bank ("FED") used four 0.25% interest rate hikes to raise the short-term lending rates from 1.50% to 2.50%. Additionally, the FED continued its' balance sheet reduction goal by not reinvesting principal and interest proceeds. Alternatively, the European Central Bank ("ECB") and the Bank of Japan ("BOJ") kept both their respective short-term lending rates and their respective balance sheets at same level. Neither the ECB or the BOJ have communicated any changes to policy nor have macroeconomic indicators such as inflation or employment suggested a policy change. Towards the end of 2018, financial market expectations of U.S. monetary policy shifted from FED rate hikes in 2019 to a FED rate pause in 2019. If the FED pauses or even cuts short-term rates, all things being equal, we would view such action as supportive for U.S. and Emerging Market assets.

## Figure 5. Evolution of Central Bank Balance Sheets

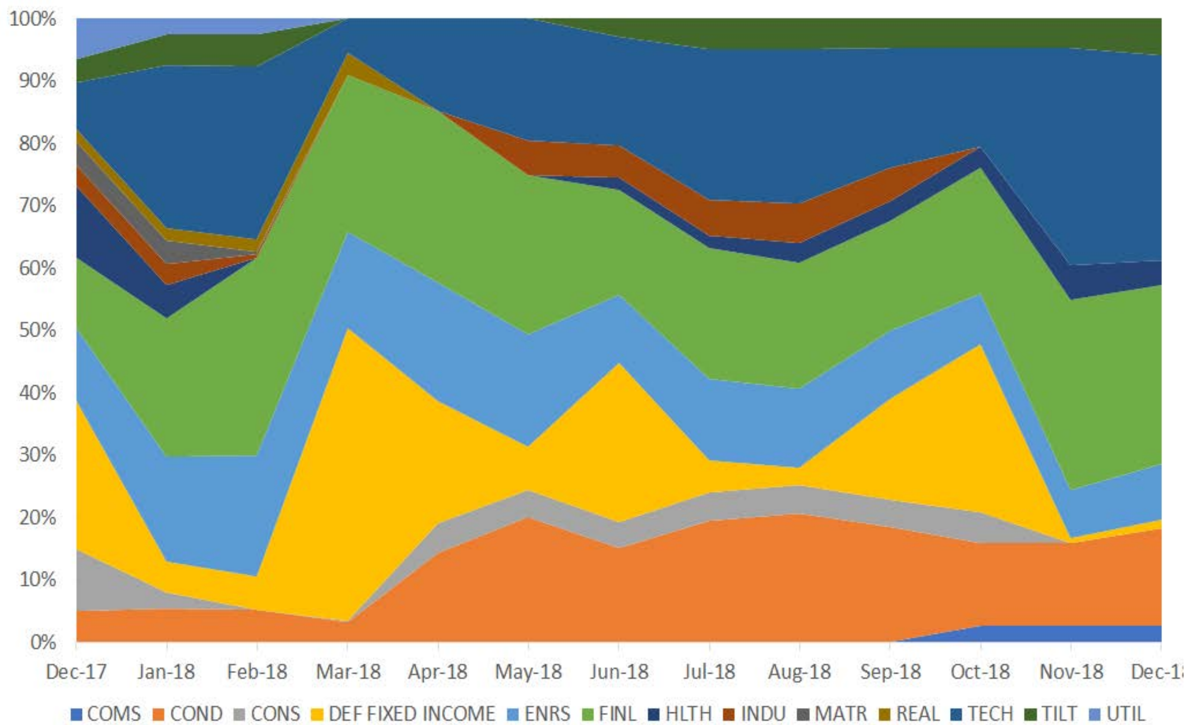



*Source: Innealta Capital using Bloomberg. Timeframe 12/31/2007 to 12/31/2018. Monthly frequency. "US" refers to the U.S. Federal Reserve balance sheet denominated in U.S. Dollars. "ECB" refers to the European Central Bank balance sheet in U.S. Dollars. "BOJ" refers to the Bank of Japan balance sheet in U.S. Dollars. Past performance is not indicative of future results.*

## Holdings Review

At the start of the calendar year, the Dynamic U.S. Opportunity Fund ("the U.S. Fund") held overweight positions in Defensive fixed income, Energy, and small-capitalization equities while underweight positions in Technology, Consumer Discretionary, and Industrial equities. Following the financial market volatility during February, the U.S. Fund increased its holdings within Financials and Technology. As of June 30th, 2018, the U.S. Fund held position overweights in Defensive Fixed Income, Energy, and Financials. During the summer of 2018, the S&P 500 continued its upward trajectory and as such the U.S. fund maintained its holdings within consumer cyclically oriented sectors. Starting in October, U.S. equity markets experienced a growth scare which saw the S&P 500 declined by 6.84% during October and declined 13.52% during the quarter. During this time the U.S. Fund decreased its defensive fixed income positions while increasing its allocations to Financials and Technology. As of December 31st, 2018, the fund held position overweights in Technology and Financials. Technology and Financial remain core holdings due to strong expected earnings growth and relative valuations respectively.

## Figure 6. Holdings Progression

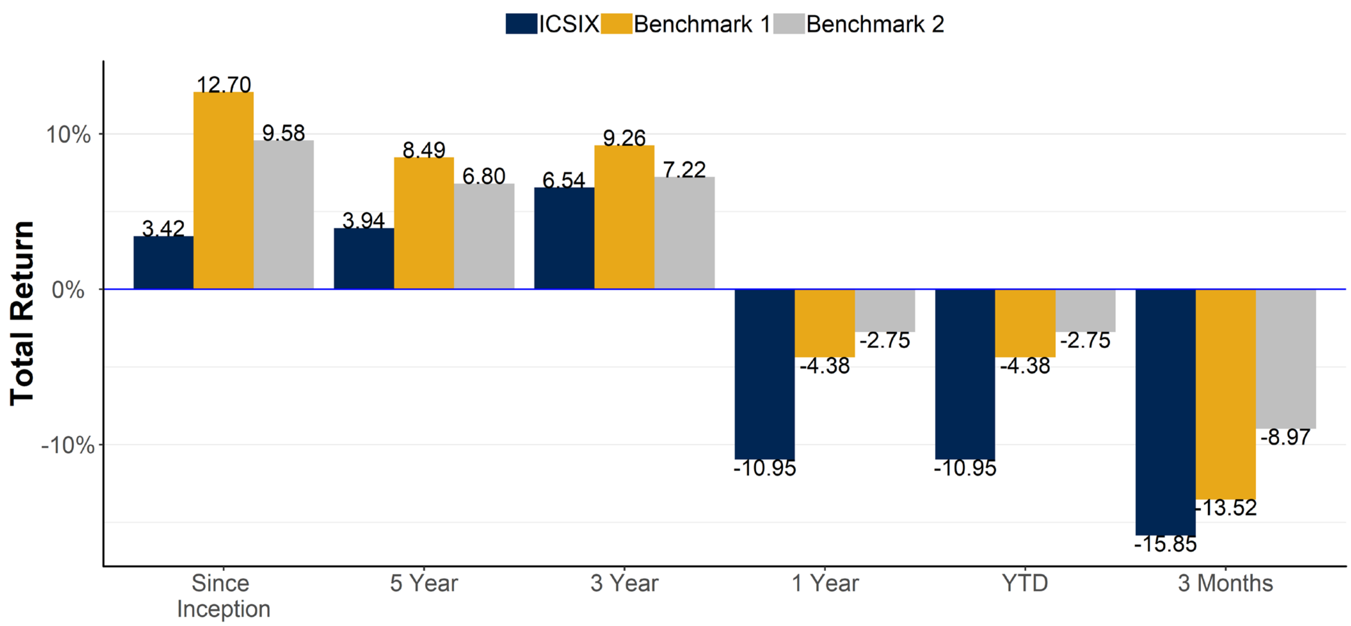



*Source: Innealta Capital as of 12/31/2018. Timeframe 12/31/2017 to 12/31/2018. "COMS" refers to the Telecommunication Services sector. "COND" refers to the Consumer Discretionary sector. "CONS" refers to the Consumer Staples sector. "ENRS" refers to the Energy sector. "FINL" refers to the Financials sector. "HLTH" refers to the Healthcare sector. "MATR" refers to the Materials sector. "REAL" refers to the real estate sector. "TECH" refers to the Technology sector. "TILT" refers to any factor tilted investment such as small capitalization equities. "UTIL" refers to the Utility sector. "DEF Fixed Income" refers to defensive fixed income positions.*

## Performance Review

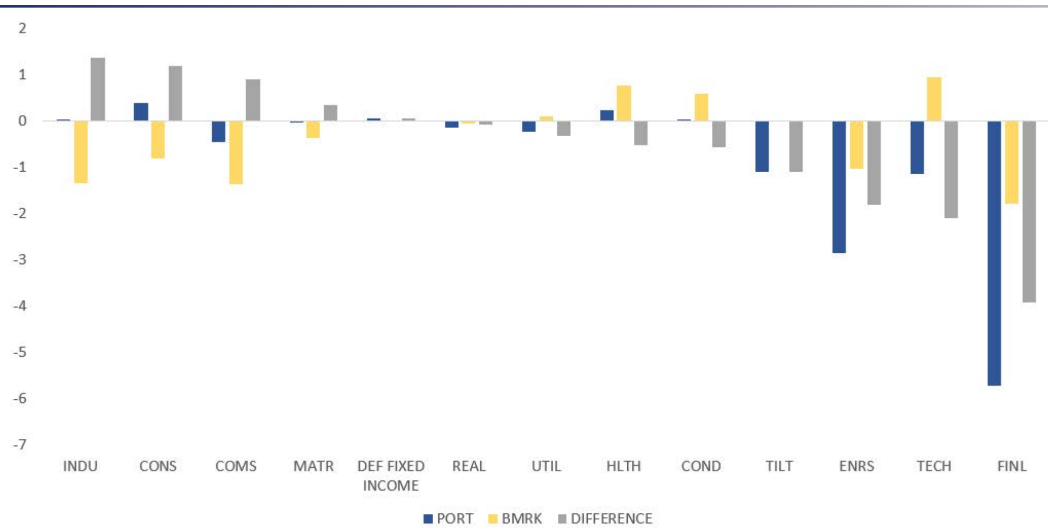
During the twelve months ending on December 31st, 2018, the Dynamic U.S. Opportunity Fund Class ("the U.S. Fund") achieved a total return of -10.95%, versus a loss of 4.38% for the S&P 500 index. Allocations to Financials and Technology were the top detractors to the fund's performance while allocations the Consumer Staples and Healthcare sectors were the top contributors to the fund's performance. During 2018, the U.S. Fund maintained a favorable view of the Financial sector given its relative valuation compared to other sectors, earnings growth, and historically strong performance during macroeconomic growth periods. Although the position produced negative attribution during 2018 relative to the benchmark, the U.S. Fund believes the relative valuation and earnings potential still warrant the overweight (please see Standardized Performance Snapshot on next page).

## Figure 7. Standardized Performance Snapshot




*Performance is supplemental and calculated using monthly data from Bloomberg.* ***Benchmark 1:*** S&P 500 Index. ***Benchmark 2:*** 70% S&P 500 Index / 30% Bloomberg Barclays U.S. Aggregate Bond Index USD. ***The performance data presented in the tables represents past performance net of all fees, including any acquired fund fees. Past performance is no guarantee of future results. Current performance may be lower or higher than the data cited above. Investment return and principal value will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. For performance information current to the most recent month end, please call 855.994.2326.*** *The Fund's total annual fund operating expenses are 1.96%, and 1.70% for Class N and Class I shares respectively. Total annual operating expenses after fee waiver are 1.63% and 1.38% for Class N and I shares. The Fund's investment adviser has contractually agreed to reduce fees and/or absorb expenses until at least March 31, 2019, to ensure that total annual fund operating expenses (excluding any front-end or contingent deferred sales loads, brokerage fees and commissions, acquired fund fees and expenses, borrowing costs, taxes and extraordinary expenses such as litigation) for the Fund do not exceed 1.49%, and 1.24% of the Fund's average net assets, for Class N and Class I shares, respectively.*

## Figure 8. 2018 Contribution Breakdown




*Source: Innealta Capital as of 12/31/2018. Timeframe 12/31/2017 to 12/31/2018. "COMS" refers to the Telecommunication Services sector. "COND" refers to the Consumer Discretionary sector. "CONS" refers to the Consumer Staples sector. "ENRS" refers to the Energy sector. "FINL" refers to the Financials sector. "HLTH" refers to the Healthcare sector. "MATR" refers to the Materials sector. "REAL" refers to the real estate sector. "TECH" refers to the Technology sector. "TILT" refers to any factor tilted investment such as small capitalization equities. "UTIL" refers to the Utility sector. "DEF Fixed Income" refers to defensive fixed income positions.*

## DISCLOSURES & IMPORTANT INFORMATION

*Innealta Capital, LLC is an Investment Adviser, registered with the Securities & Exchange Commission. For more information, please visit our website: innealtacapital.com.*

***Glossary & Risk Considerations***

***The MSCI ACWI ex US NR Index*** *captures large- and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 24 Emerging Markets (EM) countries. With 1,866 constituents, the index covers approximately 85% of the global equity opportunity set outside the U.S. Net total return indexes reinvest dividends after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.*

***The Bloomberg Barclays Global Aggregate Bond NR Index*** *is a measure of global investment grade debt from twenty-four different local currency markets. Net total return indexes reinvest dividends after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.Net total return ("NR") indexes reinvest dividends after the deduction of withholding taxes, using a tax rate applicable to non-resident institutional investors who do not benefit from double taxation treaties.*

***CBOE SPX Volatility Index*** or VIX, is a real-time market index that represents the market's expectation of 30-day forward-looking volatility. Derived from the price inputs of the S&P 500 index options, it provides a measure of market risk and investors' sentiments.

***Bloomberg Barclays U.S. Aggregate Bond Index*** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and nonagency)

***Bloomberg Barclays US High Yield Corporate Index*** measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

***U.S. Dollar Index*** is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of U.S. trade partners' currencies.

***Bloomberg Commodities index*** is a broadly diversified commodity price index distributed by Bloomberg Indexes.

***S&P 500 Total Return Index*** is a total return market-capitalization-weighted index of the 500 largest U.S. publicly traded companies by market value, The index is widely regarded as the best single gauge of large-cap U.S. equities.

***MSCI EAFE Net Total Return Index*** is an equity index which captures large and mid cap representation across 21 Developed Markets countries* around the world, excluding the US and Canada. With 920 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

***MSCI Emerging Markets Net Total Return Index*** captures large and mid cap representation across 24 Emerging Markets (EM) countries*. With 1,125 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**DEF Fixed Income***: Defensive Fixed Income refers to any debt type contained within the Bloomberg Barclays U.S. Aggregate Bond or the Bloomberg Barclays Global Aggregate Bond index as well as inflation protected debt and municipal debt.* **CYC Fixed Income***: Cyclical Fixed Income refers to Emerging market debt, both USD and locally denominated, and U.S High Yield.*

*Unmanaged index returns do not reflect any fees, expenses or sales charges, and it is not possible to invest directly in an index.*

***Important Risk Information***

*The Fund is a 'fund of funds' and typically invests in other investment companies and exchange traded funds ("ETFs"). Costs of investing in the Fund are generally higher than direct investments and investors may bear the fees, expenses, and brokerage costs charged by the ETFs. ETFs carry security, market and sector risks, and may not perform as expected which could result in a decline in value. When the Fund invests in ETFs that own fixed income securities, the value of your investment in the Fund will fluctuate with changes in interest rates. The use of leverage and inverse leveraged ETF's may exaggerate changes in price and return. Accordingly, values may be more volatile and the risk of loss magnified when compared to non-leveraged investments. Other possible risks to the Fund include those related to investment in small and medium sized companies, foreign securities, currencies and emerging markets, and short-term trading. Please review the prospectus carefully for additional details.*

***Mutual Funds involve risk including the possible loss of principal.***

***Investors should carefully consider the investment objectives, risks, charges and expenses of the Innealta Funds. This and other important information about the Funds is contained in the prospectus, which can be obtained by calling 855.994.2326. The prospectus should be read carefully before investing. The Innealta Funds are distributed by Northern Lights Distributors, LLC a FINRA/SIPC member. Innealta Capital, LLC is not affiliated with Northern Lights Distributors, LLC.***

*13215 Bee Cave Pkwy. | Building A, Suite 240 | Austin, Texas 78738 | p: 737.808.4640 | www.innealtacapital.com*

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