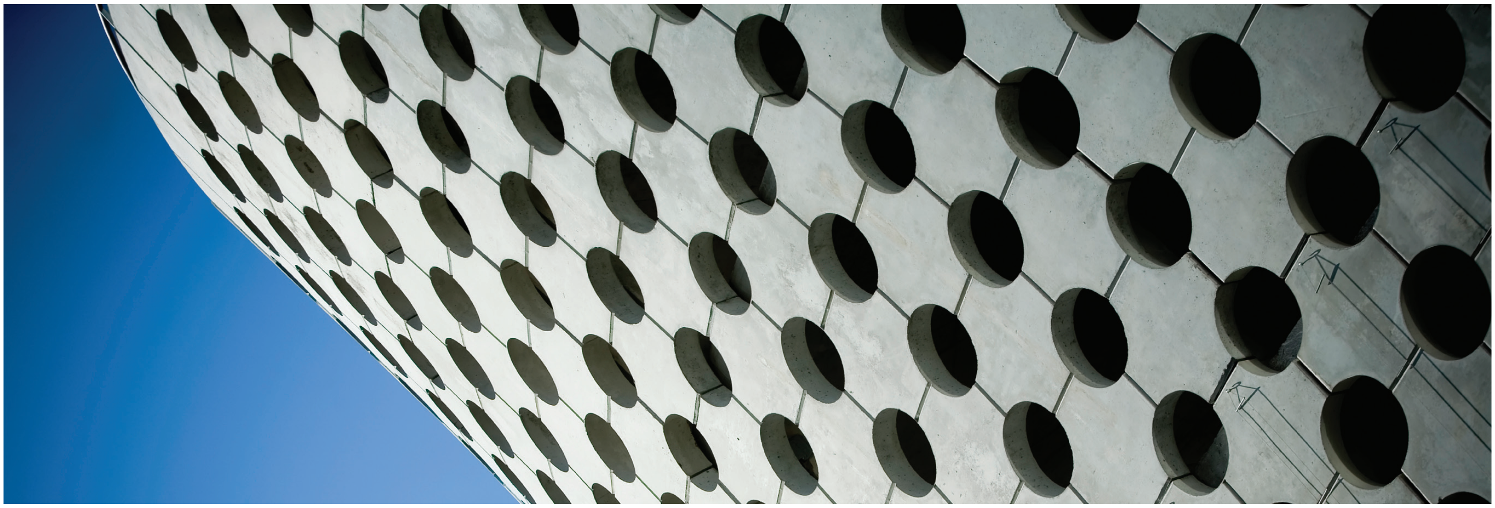

Staying the course: a mid-year review of the PMC Tactical ETF Core Rotation Portfolios

Despite some unsettling events both domestically and abroad, the first half of 2014 resulted in relatively calm markets and extraordinarily low volatility. Will the markets close out the year quietly or strike back with a major correction? Should portfolios remain positioned for uncertainty and risk?

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At the beginning of the year, we examined the PMC Tactical ETF Core Rotation Portfolios against the backdrop of 2013, which finished as a strong year for equities. Compared to their benchmarks, the portfolios demonstrated lower volatility, strong risk-adjusted return, and better downside protection—important measures when the objective is to manage risk and preserve capital over the long-term. Halfway into 2014, amidst unprecedented levels of liquidity and accommodative monetary policies of the Federal Reserve and other central banks around the world, market experts appear to be divided as to how the remainder of the year will turn out. We continue to believe the Core Rotation Portfolios are uniquely designed for a variety of markets, able to cope with, and find opportunities in, calm or turbulent times.

Positioning in 2013 and preparing for 2014

The Core Rotation Portfolios are positioned *defensively* relative to benchmarks, and *opportunistically* when sectors and markets present more attractive fundamentals, as called for by Innealta Capital's tactical model. Throughout 2013, Innealta evaluated their quantitative framework and found a lack of fundamental support for broad equity exposure, especially for developed equity markets, with little to no improvement in the levels and dynamics of fundamentals throughout the year. As a result, the portfolios' *defensive* aspect constrained absolute performance that year, as equity markets posted strong gains.

However, also in 2013, Innealta found *opportunities* in greater volatility and far more attractive fundamentals in emerging equity markets, and added beta to the Country Rotation Portfolio. They also pursued several shifts among fixed income allocations that considered heightened risks to credit and duration exposures. These shifts proved timely and led to broader outperformance within fixed income, despite the heightened volatility in emerging markets and other risk asset classes resulting from the eventual unwinding of the Fed's quantitative easing program.

Figure 1:
Volatility (standard deviation): Country and Sector Rotators vs. benchmarks*

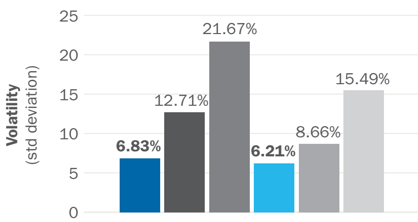


Figure 2:
Risk-adjusted returns (Sharpe ratio): Country and Sector Rotators vs. benchmarks*

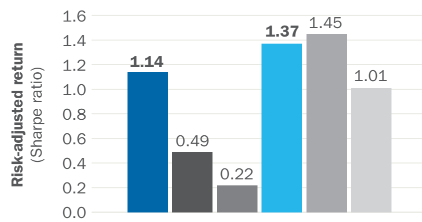
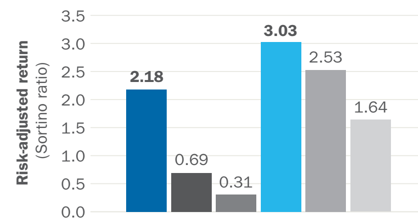


Figure 3:
Risk-adjusted returns (Sortino ratio): Country and Sector Rotators vs. benchmarks*



■ PMC Tactical ETF Core Portfolio – Country Rotation
■ 60% MSCI EAFE / 40% Barclays 7–10 year Treasury
■ MSCI EAFE
■ PMC Tactical ETF Core Portfolio – Sector Rotation
■ 60% S&P 500 / 40% Barclays 7–10 Year Treasury
■ S&P 500

* Time period is inception to 06/30/2014. Inception date for Country Rotation portfolio and start date for respective benchmarks is 9/1/2008; inception date for Sector Rotation portfolio and start date for respective benchmarks is 11/1/2008.

Performance review through Q2 2014

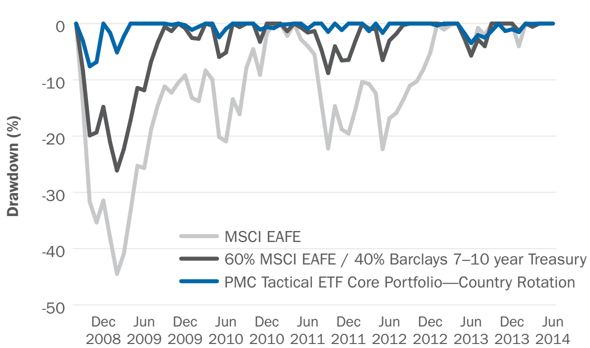
Compared to their benchmarks, the portfolios performed well in the first half of 2014, building on since-inception performance and continuing to manage downside risk. Volatility (standard deviation) remained low, indicating that the portfolios expose investors to less risk than their benchmarks (Figure 1).

The portfolios also continued to maintain higher Sharpe and Sortino ratios, indicating that, not only do they perform as well as their benchmarks over the long-term, investors are compensated for the risk they take on (Figures 2 and 3). Additionally, drawdown histories show that the portfolios provided significantly better downside protection than their benchmarks in most observances since inception (Figure 4 and 5).

Ready for risk—in any market

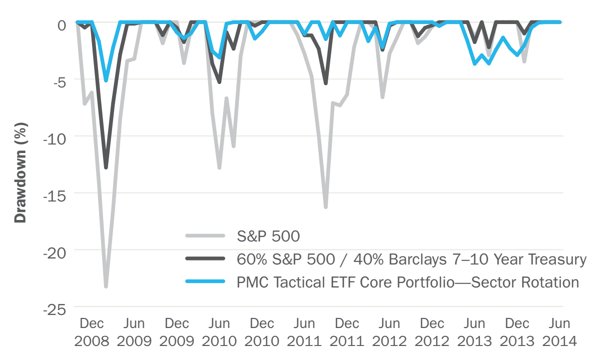
Examining the importance of managing risk further, we find that sharp market declines can make it extremely difficult to recoup losses in a portfolio. In fact, it is better to avoid downside losses and miss the worst trading

Figure 4:
Drawdown: Country Rotator vs. benchmarks*



* Time period is inception to 06/30/2014. Inception date for Country Rotation portfolio and start date for respective benchmarks is 9/1/2008.

Figure 5:
Drawdown: Sector Rotator vs. benchmarks*



* Time period is inception to 06/30/2014. Inception date for Sector Rotation portfolio and start date for respective benchmarks is 11/1/2008.

days in the market than to participate in the best trading days. Figure 6 illustrates the performance of a $10,000 initial investment in the Country Rotation Portfolio benchmark, the MSCI EAFE, over a 10-year period.

To further emphasize the portfolios' ability to protect against the downside, Figure 7 shows cumulative performance versus its benchmark during the 20 largest down market days in each calendar year. From the beginning of 2010 through the end of 2013, annualized losses over the 20 worst down market days for each year (80 days total) were -4.38% for the Country Rotation Portfolio compared to -36.23% for its benchmark.

There will likely be good and bad trading days in any market, in any year—incorporating an investment strategy that is actively focused on minimizing downside risk can be helpful in any market environment.

Risk expectations for the rest of 2014

The first half of the year saw continued economic growth and markets mostly undeterred by recent events—the severe winter weather, the first quarter's gross domestic product (GDP) contraction, crisis in Ukraine, drop in interest rates. How will the rest of 2014 play out? We believe strong results in the first half of 2014 will support earnings growth and economic activity in the second half, and a significant hike in rates remains unlikely. However, interest rates may rise in anticipation of a more significant increase sometime in 2015. It is important to note that even a small increase could impact investor portfolios (particularly those with bonds). In addition, while also still at historically low levels, inflation could possibly creep up and further dampen the value of investment assets. Furthermore, low volatility is actually a risk in itself, lowering the market's defenses to potential shocks (geopolitical or otherwise).

Staying in the Core Rotation Portfolios, we believe, is a good decision for the rest of 2014 as well as the long term. By keeping a relatively conservative stance, the portfolios are designed to help protect investors from the risk potentially percolating beneath the calm markets. Employing a tactical strategy and taking advantage of periods of volatility (Fed induced or otherwise) may work well for a wide range of investors. Whether anticipating a bubble or finding opportunities in uncertainty in the markets (i.e. currently attractive but traditionally risky high-yield bonds and emerging market debt), investors can potentially benefit from the Core Rotation Portfolios' objective to manage volatility, provide downside protection, and preserve capital over the long-term.

For more information, please see the most recent marketing materials and quarterly performance reports for the PMC Tactical ETF Core Rotation Portfolios posted on the Envestnet platform.

Your [Envestnet regional sales manager] is also available to assist you.

Figure 6:
Performance of a $10,000 investment in the MSCI EAFE[1, 2]

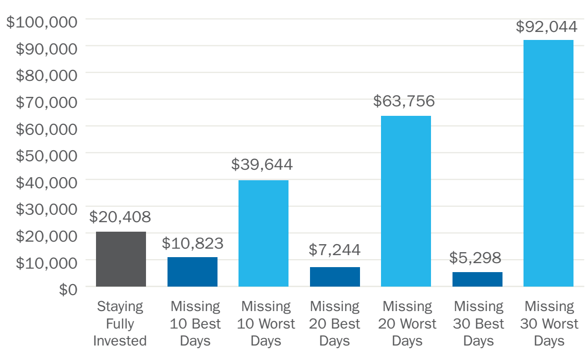
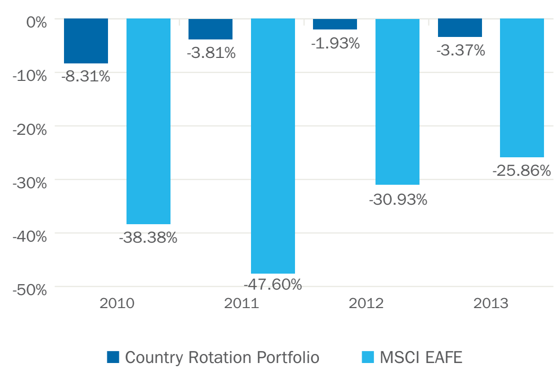


Figure 7:
Performance on down market days: Country Rotation Portfolio vs. MSCI EAFE[1, 2]



[1] Source: Morningstar, Innealta Capital
[2] Important note: The information above is not intended to be representative of performance versus the MSCI EAFE. Quarterly performance reports for the portfolio include this information and are available upon request.

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Exchange Traded Funds (ETFs) are subject to risks similar to those of stocks, such as market risk. Investing in ETFs may bear indirect fees and expenses charged by ETFs in addition to its direct fees and expenses, as well as indirectly bearing the principal risks of those ETFs. ETFs may trade at a discount to their net asset value and are subject to the market fluctuations of their underlying investments. Income (bond) ETFs are subject to interest rate risk which is the risk that debt securities in a portfolio will decline in value because of increases in market interest rates.

The PMC Tactical Portfolio may utilize inverse and leveraged ETFs. Leveraged ETFs are ETFs that employ financial derivatives and debt to try to achieve a multiple (for example two or three times) of the return or inverse return of a stated index or benchmark over the course of a single day. Inverse ETFs utilize short selling, derivatives trading, and other leveraged investment techniques, such as futures trading to achieve their objectives, mainly to track the inverse of their benchmarks. Inverse and leveraged ETFs are generally most suitable for sophisticated investors who understand leverage and are willing to assume the risk of magnified potential losses. Given the risk/ return trade-offs, these types of ETFs may not be appropriate for long-term investors who typically subscribe to "buy and hold" investment strategies.

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