FOURTH QUARTER 2023 | PORTFOLIO COMMENTARY

FREEDOM DYNAMIC®

RISK ASSIST SERIES



PORTFOLIO POSITIONING

- The Risk Assist strategies entered 2023 at 40-50% de-risked after a volatile year for financial markets in 2022. As equity markets stabilized and recovered during the first half of 2023, the strategies steadily re-invested and have been fully invested since early April 2023.
- Within the equity allocation, we are balanced between the value and growth investment styles. We anticipate
 economic growth will slow in 2024 as the reset higher of interest rates in recent years will likely weigh on economic
 activity. As a result, our preference within our equity exposure is more established growth companies with strong
 balance sheets and resilient earnings alongside companies with a history of consistently paying and growing
 dividends.
- In the fixed income allocation, we maintain a somewhat lower duration profile than the broader bond market, as measured by the Bloomberg U.S. Aggregate Bond Index. This positioning was a positive when looked at the entirety of 2023, although this proved to be a negative during 4Q23, when interest rates declined sharply. Bond prices and interest rates have an inverse relationship. Also, shorter duration bonds typically decline less when interest rates are rising and appreciate to a lesser degree when rates are falling. With the Federal Reserve likely to reduce rates in 2024, we are evaluating when to extend the duration of the portfolio with the aim to further benefit from the potential for interest rates to decline in 2024.

RATIONALE

We believe U.S. economic growth will slow over the coming quarters. This is due in large part to the lagged impact of the dramatic increase in interest rates. As such, we are emphasizing quality companies with strong balance sheets and resilient earnings that we believe are better positioned to weather an uncertain economic backdrop. We also believe companies with a history of growing dividends should perform relatively well in this environment.

In our view, U.S. companies continue to be better positioned to generate earnings growth amid a potential slowdown in economic activity than their international counterparts, which tend to be more cyclical and economically sensitive. Based on this outlook, we are overweight U.S. equities relative to their international counterparts.

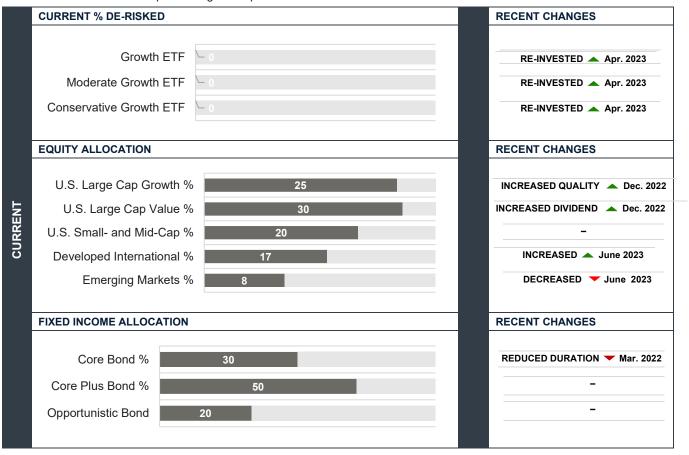
Within the fixed income allocation, the duration of the bond portfolio is below the benchmark Bloomberg U.S. Aggregate Bond Index. With the Federal Reserve expected to pivot and reduce interest rates in 2024, we are evaluating the timing of extending the duration of the strategies. Typically, fixed income portfolios with longer duration benefit from declines in interest rates.

Overall, fixed income markets offer much more attractive yields currently than they have in some time. We believe bonds offer a compelling diversifier to stocks amid elevated uncertainty in the economic outlook.



ALLOCATION BREAKDOWN

Below is a breakdown of our positioning as of quarter-end:



PERFORMANCE REVIEW

Through the first nine months of 2023, positive equity returns were driven by a narrow group of large-cap U.S. technology and consumer-related stocks, while small-cap stocks, value-centric sectors, and international equities lagged significantly. This trend shifted in 4Q23 as the sharp rally in equites was broad-based, with most areas of the market recording double-digits gains. Leadership also changed with small-cap stocks outpacing large-cap stocks and value stocks nearly kept pace with the growth sectors. The drivers of the market performance during 4Q23 included the continued resilience of the U.S. economy, corporate earnings exceeding market expectations, waning inflation data, U.S. consumers remaining relatively healthy, and a shift in interest rate policy. After raising interest rates eleven times between March 2022 and July 2023, the Federal Reserve has kept interest rates steady over the past three meetings. Additionally, Federal Reserve Chair Jay Powell struck a dovish tone recently and anticipates the Fed will reduce interest rates during 2024.

Bonds benefited significantly from the decline in interest rates. In fact, November was the best month for the benchmark Bloomberg U.S. Aggregate Bond Index in nearly 40 years. The 10-year Treasury yield fell from 4.6% at the beginning of the quarter to 3.9% at year-end, which essentially matched the 10-year yield at the beginning of 2023.

With both equity and fixed income sharply higher, the Risk Assist strategies generated a solidly positive return in the quarter.



The following were key contributors to and detractors from performance, on a relative basis, during 4Q23.

EQUITY ALLOCATION

- Following the trend that played out throughout the year, U.S. growth stocks outperformed in 4Q23. Technology stocks were once again a leading sector.
- Mid- and small-cap U.S. outperformed large-cap stocks this past quarter. Smaller companies often maintain higher leverage and therefore benefit from lower interest rates to a greater extent than larger corporations.
- Developed international stocks increased double digits during the quarter and nearly matched the return of the S&P 500. Much like the U.S., international investors are hopeful slowing inflation data will result in a pause in the interest rate hikes by Central Banks and will eventually lead to rate cuts.

EQUITY ALLOCATION

- U.S. value stocks underperformed growth stocks, although the magnitude was less during 4Q23 compared to prior quarters in 2023. Several interest rate sensitive value sectors rallied sharply with the decline in interest rates, namely Real Estate and Financials.
- While Emerging Markets were up this past quarter, returns did not keep pace with developed markets. China continues to pressure the sector as the market was down in 4Q23 amid a myriad of issues including a weak housing market, rising unemployment, and geopolitical tension. The lackluster results in China overshadowed exceptional returns in Brazil and Mexico.

FIXED INCOME ALLOCATION

CONTRIBUTORS

- The broad U.S. fixed income market, as measured by the Bloomberg U.S. Aggregate Bond Index, rallied during the quarter as longerterm yields fell sharply in the quarter.
- High yield bonds posted another strong quarter and was one of the best performing sectors of the bond market in 2023 as corporate balance sheets remained relatively healthy, bond defaults are well-contained, and current yields are attractive.

FIXED INCOME ALLOCATION

 While short-term bonds were up in the quarter, results lagged the returns of the longer-term bonds, which benefited to a greater degree from the decline in interest rates.

ABOUT THE FREEDOM DYNAMIC® RISK ASSIST SERIES

The Risk Assist Series of Freedom Dynamic[®] is designed to protect portfolios against catastrophic losses through an algorithmic risk mitigation process that monitors markets daily for signals that may pose significant risk and dynamically manages portfolio risk levels based on these signals.

DETRACTORS

