FREEDOM QUARTERLY MARKET COMMENTARY

SECOND QUARTER 2016

Key Takeaways

- The U.S. economy shows resiliency in the face of uncertainty.
- While market volatility increased globally, equity markets recover.
- Fixed income continues to improve, especially with the Federal Reserve's dovish sentiment regarding interest rates.
- Commodities rebound as exchange rates and oil prices stabilize.

The U.S. economy continues to show remarkable resiliency in the face of uncertainty overseas this quarter. Despite ongoing Federal Reserve policy concerns, there was also stronger economic data compared to a softer first quarter, and moderate economic growth is anticipated moving forward, supported by solid consumer spending and job growth.

Even with this period's unique market conditions, many norms were present such as lower-risk investments holding up better than those with higher risk profiles. For example, the stocks of large companies and dividend-paying equities typically fare better than small-cap stocks' steeper decline when markets pull back. More broadly, U.S. markets have historically held up better than international markets. This pattern held true after Brexit, the United Kingdom's vote to leave the European Union, and should ease some concerns for investors with diversified portfolios.

Another normal reaction in this market environment included the rallying of U.S. investment grade bonds. Historically, when stressful equity markets occur and yields decline, investment grade bonds – including U.S. treasury, high-credit-quality corporate and other types of high-quality bonds rally. This "flight to quality" is expected during a declining equity market, and occurred in similar periods during the first quarter of 2016 and the third quarter of 2015. This reaction from high quality bonds and equities reinforces the importance of portfolio diversification as non-correlated asset classes have the potential to provide benefits during different market environments.

The Brexit Effect

Although many events helped drive capital markets, we believe none were more impactful than the United Kingdom's decision to leave the European Union after four decades. While it's difficult to estimate long-term ramifications of this decision, it has led to an elevated state of volatility as the world attempts to determine its impact.

In the near term, the decision caused the global financial markets to react negatively in regard to equity prices as well as exchange rates. As other countries in the 27-country European Union (EU) consider staying or exiting, such as Scotland potentially voting to leave the UK and remain the in the EU, we may see additional ramifications down the road. As we wait to see how things unfold, the Asset Management Services (AMS) Investment Committee (IC) reinforces the importance of ensuring that your portfolio is appropriately positioned for the level of risk you're comfortable taking if heightened levels of volatility remain.

Diversification does not ensure a profit or protect against a loss. All investments are subject to risk. There is no assurance that any investment strategy will be successful. Past performance is not a guarantee of future results. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses which would reduce returns.

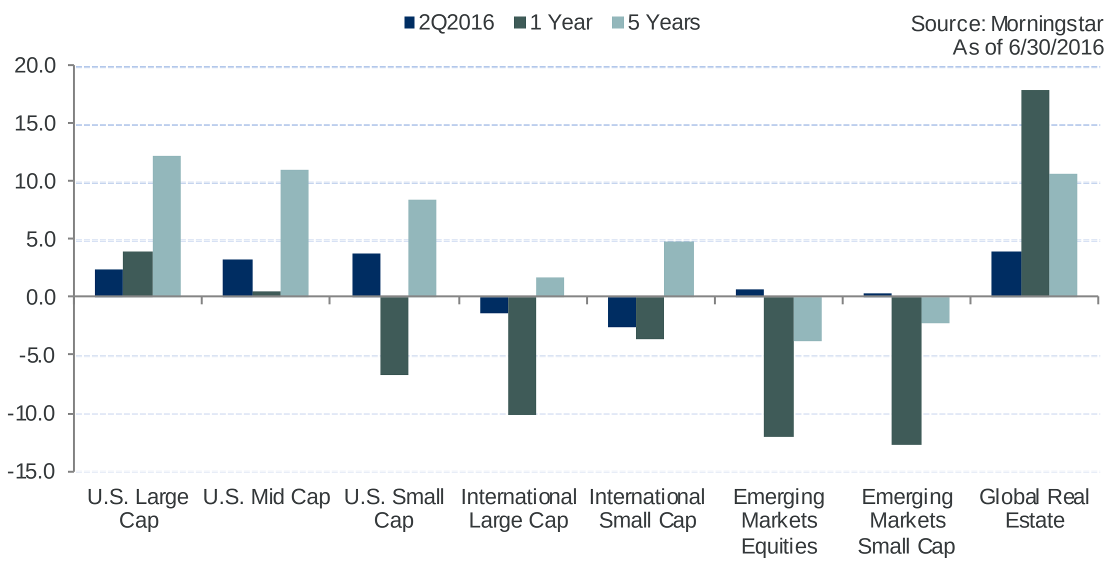
Besides Brexit, other market drivers included the Fed's dovish sentiment, easy global monetary policies, stabilizing commodity prices and earnings. While the Fed did raise interest rates by 25 basis points in December 2015, we believe its statements since have indicated a lack of willingness to increase interest rates in this environment. Ultimately, we see little chance that the Fed raises interest rates this year. With rates being perceived as unlikely to increase in the near future, bond prices have benefitted and some market concerns have been calmed over the headwind this places on the U.S. economy.

Globally, slow economic growth is still a trend with capital spending remaining soft. Currency weakening overseas isn't limited to the British pound, but also includes Chinese and Japanese currencies. In recent years, the slowing Chinese economy has had a noticeable impact across the globe. Although China's deceleration has seemed to taper off in the past few quarters, its economy still isn't growing at the high rate the world has become accustomed to.

Equity Market Returns

While uncertainty remains, U.S. stocks advanced in the final days of the month, bringing the S&P 500 back into positive territory for the year, as collective tension eased within a few days of the referendum vote.

Equity Returns



The quarter's positive returns for U.S. equities were a strong contributor to Freedom portfolios, relative to international equities, as they comprise the largest weighting of the portfolios' equity investments. For both small- and large-cap stocks, energy, materials, healthcare and utilities led both the S&P 500 and Russell 2000 indexes. For the third consecutive quarter, the S&P 500 and Dow Jones indices ended the quarter on a positive note — while the Nasdaq basically ended flat for the three-month period.

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Earnings

A first since 2009, U.S. corporate earnings declined last year for the S&P 500. Much of the decline was blamed on falling oil prices, as well as the stronger dollar and other factors hurting foreign revenue. The S&P 500's 12-month reported earnings, ending 3/31/2016 were $86.41 per share versus a year ago at $99.25 – accounting for a decrease of approximately 13%, although year-over-year earnings results were flat. Over time, it's believed that the markets will be driven by factors including earnings, inflation and economic growth.

Valuations

Equity investors should also pay attention to valuation, how much the market costs compared to how much it's earning. When markets are cheap, they tend to earn above-average returns as valuations move toward normal values, and when markets are expensive the opposite is true. U.S. large-cap valuations have risen relative to other asset classes such as small-cap and international equities. This factor, coupled with a mild environment for earnings growth, contributes to the Asset Management Services Investment Committee's (AMS IC) cautious view for this asset class. Conversely, small- and mid-cap stocks experienced a large drawdown during recent market pullbacks. Valuations for small caps, previously ahead of fundamentals, have since corrected and we believe are currently more attractive compared to mid-cap or large-cap stocks. However, less expensive markets mean concerns have driven down valuations and investing in higher volatility asset classes brings more potential risk.

We believe this practical approach to asset allocation requires the AMS IC to exercise some degree of caution as those areas of the market that are "cheaper" may get even "cheaper." Part of the AMS IC's asset allocation process seeks to identify both expensive and inexpensive markets and deploy capital from one to the other.

International equities

As expected, markets reacted negatively to the Brexit announcement, although international markets were up prior to the June 23 vote with anticipation of a vote to stay. Although European markets such as the German FSE DAX index and France's Euronext Paris CAC 40 index were down in the two days following the Brexit vote, both European markets rebounded in the final days of the month and finished the quarter down 5.3% and 0.6% respectively. In comparison, over the same time periods the S&P 500 index gained 2.5%.

Overall, the performance gap is closing with the S&P 500 returning 2.5% for the quarter, and international equities down 2.0%. While this relative value of international equities has not produced higher returns compared to the U.S. markets to date, and there will be a minor impact to valuations and prices in the short term, the committee believes international equities are fundamentally more attractive than U.S. equities and owning the asset class will benefit investors over time. However, if the market continues to be disruptive, U.S. equities may be more beneficial in the near term.

Developed markets outside the U.S., such as Europe and Japan, remain more accommodative compared to U.S. central bank policies and we believe they are relatively more attractive based on

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market fundamentals including higher expected earnings growth rates. Developed markets tend not to be as volatile as emerging markets, yet present higher risks compared to the U.S. large cap market.

Overall, as valuations have risen faster than earnings in recent periods, some caution is justified until there is an improvement in earnings and/or prices. High valuations in the U.S. relative to non-U.S. equity investments support the AMS IC's cautious approach. For more conservative investors, we believe limited exposure to non-U.S. assets may be more appropriate.

Emerging markets

Dovish Fed sentiment has helped improve the emerging markets space. With expectations for an interest rate increase down, so far this year emerging markets have been one of the best performing asset classes. Throughout the second quarter, the potential rate hike was cause for the pull back in emerging market assets as well as lower commodities prices.

We believe much of this uncertainty, coupled with social, economic and political issues in Brazil and other emerging regions, makes investing in this space risky. Although the potential downside is strong for emerging economies, the potential upside is equally as strong in our opinion. The AMS IC is keeping an eye on emerging markets based on potential risks in slowing areas of the world that are tied to commodity prices and sensitive to the rising U.S. dollar and the potentially adverse influences of softening currencies.

Fixed Income Market Returns

As yields have come down this year due to a dovish tone from the Fed, bond prices have rallied, with emerging market debt up 14.0% for the year as fears of a stronger dollar diminished and currencies stabilized. With oil price stabilization and lack of interest rate pressure, the AMS IC has seen a boost to investment grade bonds as well as high yield and emerging market debt.

The biggest positive impact from commodities was high yield debt which started rebounding in February as oil prices stabilized. Much of the new issuance of high yield debt has been related to the energy industry and the rapid fall in prices put many of these high yield issuers in the threat of default. High yield bonds have been one of the best performing overall investments this year, returning 5.5% in the second quarter and 9.1% year-to-date.

While starting point valuations for high yield are at historically attractive levels, risks remain given late credit cycle dynamics and volatile commodity conditions in the U.S. – the AMS IC prefers a more diversified allocation across credit sectors. Also the committee maintains an optimistic outlook on non-traditional fixed income with continued downward pressure on rates outside the U.S., giving cause to provide strategies with greater flexibility for risk management.

Historically speaking, when stocks have declined by a large margin, investment grade fixed income has rallied. Low to negative correlations to equities continue to support the benefits of interest-rate-sensitive investments within the Freedom portfolios. Historically, such allocations have assisted greatly in managing the downside risk of equity investments. The AMS IC views investment grade fixed income as a way to hedge or mitigate the inherent risks associated with equity securities. However, with

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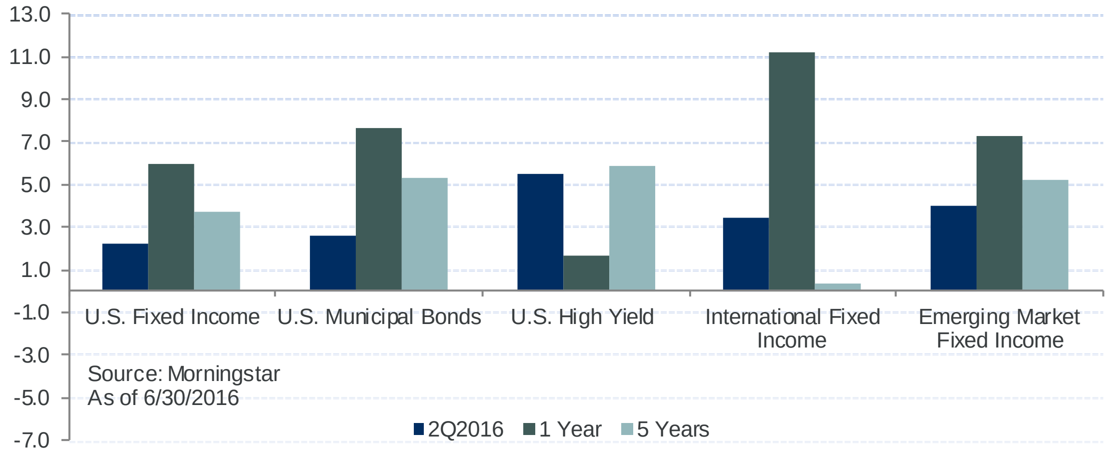
starting yields, continued suppression of return potential and rate normalization, volatility is believed to remain at heightened levels.

Fixed Income Returns



Alternative Investments Market Returns

As a difficult earnings environment and growing market volatility have increased the attractiveness of alternative beta sources, the AMS IC views this asset class as a way to help diversify portfolio risk.

We believe non-traditional investments such as managed futures and other types of alternative investments may help investors reduce impact from market volatility, especially in the face of rising valuations and the flattening of the yield curve. Commodities prices are rebounding and oil prices have risen throughout the quarter. This gives a boost to oil-exporting countries and boosted earnings for energy-related companies.

The Morningstar Multialternative peer group, which includes funds of funds, hedge fund replications and global macro strategies, is trending upward and posted 0.7% for the quarter. Managed futures – trend-following funds that invest in a variety of markets: equity, fixed income, currencies and commodities – were up during the last month of the quarter at 3.6%, when markets reacted negatively to news of Brexit. Managed futures tend to react positively during times of market stress.

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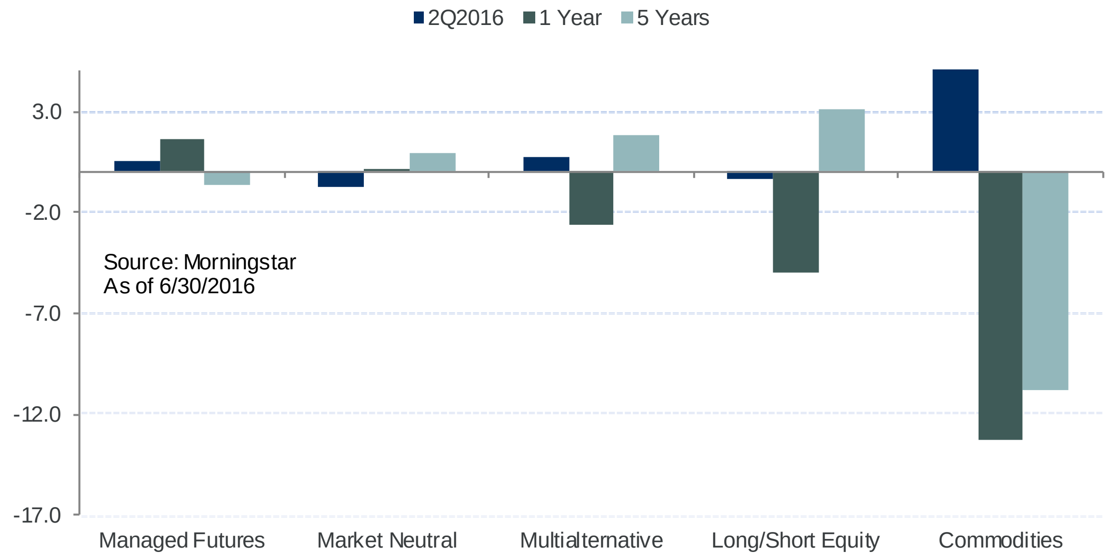
Alternative Investments Returns



Final Thoughts

It's no secret that financial markets react negatively to uncertainty. As expected, prior to the vote of Britain deciding to leave the European Union, market volatility increased during the quarter as the world was waiting for a decision. Time will ultimately sort out the impact, and we expect more near-term volatility as the market looks for its equilibrium point.

In this heightened state of risk awareness, we believe investors should continue to own diversifying assets including a variety of equity as well as high quality bonds, as they tend to perform well when risk increases and equities decline. This is a long-standing building block of asset allocation and risk management.

If investors are concerned about increased risk, they can roll down the risk curve by moving into a more conservative portfolio with less equity exposure for more downside protection, however that could lead to lower overall returns. The AMS IC has sought to reduce overall equity risk from asset classes deemed to be relatively expensive while rotating to areas that are seemingly less expensive. At the same time, the committee is striving toward reducing overall volatility and improving the overall risk profile in Freedom portfolios compared to the equity markets both in the U.S. and around the world and is confident with current allocation positioning given the current market environment.

Past performance is not a guarantee of future results. Indices are not available for direct investment. Any investor who attempts to mimic the performance of an index would incur fees and expenses that would reduce returns. All investing involves risk. Asset allocation and diversification does not ensure a profit or protect against a loss.

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the purchase or sale of any security outside of a managed account. There is no guarantee that these statements, opinions or forecasts provided herein will prove to be correct.

There is no assurance that any investment strategy will be successful. All investments carry a certain degree of risk and you may incur a profit or a loss.

Risk: It is important to review the investment objectives, risk tolerance, tax objectives and liquidity needs before choosing an investment style or manager. All investments carry a certain degree of risk and no one particular investment style or manager is suitable for all types of investors, you may incur a profit or a loss.

- High-yield (below investment grade) bonds are not suitable for all investors and may present greater credit risk than other bonds.
- There is an inverse relationship between interest rate movements and fixed income prices. Generally, when interest rates rise, fixed income prices fall and when interest rates fall, fixed income prices generally rise. Bond and bond fund investors should carefully consider risks such as: interest rate risk, credit risk, liquidity risk and inflation risk.
- International investing involves special risks, including currency fluctuations, different financial accounting standards, and possible political and economic instability.
- Investing in emerging markets can be riskier than investing in well-established foreign markets. Emerging and developing markets may be less liquid and more volatile because they tend to reflect economic structures that are generally less diverse and mature and political systems that may be less stable than those in more developed countries.
- Investing in small-cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor. Stocks of smaller or newer or mid-sized companies may be more likely to realize more substantial growth as well as suffer more significant losses than larger or more established issuers.
- Commodities trading is generally considered speculative because of the significant potential for investment loss. Among the factors that could affect the value of the fund's investments in commodities are cyclical economic conditions, sudden political events, changes in sectors affecting a particular industry or commodity, and adverse international monetary policies. Markets for precious metals and other commodities are likely to be volatile and there may be sharp price fluctuations even during periods when prices overall are rising.
- Specific sector investing such as real estate can be subject to different and greater risks than more diversified investments. Declines in the value of real estate, economic conditions, property taxes, tax laws and interest rates all present potential risks to real estate investments.
- Some accounts may invest in Master Limited Partnership (“MLP”) units, which may result in unique tax treatment. MLPs may no t be appropriate for ERISA or IRA accounts, and cause K-1 tax treatment. Please consult your tax adviser for additional information regarding the tax implications associated with MLP investments.
- Alternative investments are generally considered speculative in nature and may involve a high degree of risk, particularly if concentrating investments in one or few alternative investments. These risks are potentially greater and substantially different than those associated with traditional equity or fixed income investments. The investment strategies used by certain Funds may require a substantial use of leverage. The investment strategies employed and associated risks are more fully disclosed in each Fund's prospectus, which is available from your financial advisor. Changes in the value of a hedging instrument may not match those of the investment being hedged.
- These portfolios may be subject to international, small-cap and sector-focus exposures as well. Accounts may have over weighted sector and issuer positions, and may result in greater volatility and risk.
- Companies in the technology industry are subject to fierce competition, and their products and services may be subject to rapid obsolescence.

Beta: Beta is a measure of the volatility, or systematic risk, of a security or a portfolio in comparison to the market as a whole. Beta is used in the capital asset pricing model (CAPM), a model that calculates the expected return of an asset based on its beta and expected market returns.

Index Descriptions:

Barclays U.S. Aggregate Bond Index (U.S. Fixed Income) – This index includes investment grade U.S. Government bonds, corporate bonds, mortgage pass-through securities and asset-backed securities that are publicly offered for sale in the United States. The securities in the index must have at least one year remaining to maturity.

Barclays U.S. Corporate High Yield (U.S. High Yield) – Covers the universe non-investment grade debt which includes and non-corporate sectors. The index also includes Eurobonds and debt issues from countries designated as emerging markets (sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody’s, S&P, and Fitch) are excluded, but Canadian and global bonds (SEC registered) of issuers in non-EMG countries are included. Original issuzeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included.

Barclays Municipal e Bond Index (U.S. Municipal Bonds): A rules-based, market-value weighted index that is engineered for the long-term tax-exempt bond market. Bonds must be rated investment-grade (Baaa3/BBB- or higher) by at least two of the following rating agencies: Moody's, S&P, Fitch. The bonds must be fixed rate, have a dated-date after December 31, 1990, have an outstanding par value of at least $7 million, and be issued as part of a transaction of at least $75 million. The four main sectors of the index are: general obligation bonds, revenue bonds, insured bonds (including all insured bonds with a Aaa/AAA rating), and prefunded bonds. Remarketed issues, taxable municipal bonds, floating rate bonds, and derivatives, are excluded from the benchmark.

Barclays Global Aggregate ex-U.S. Dollar (International Fixed Income): The index is designed to be a broad based measure of the global investment-grade, fixed rate, fixed income corporate markets outside of the U.S. The major components of this index are the Pan-European Aggregate, and the

Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities.

Barclays Global Emerging Market Debt (Emerging Markets Fixed Income): The Barclays Global Emerging Markers Index represents the union of the USD-denominated U.S. Emerging Markets Index and the predominately EUR-denominated Pan Euro Emerging Markers Index, covering the emerging markets in the following regions: Americas, Europe, Middle East, Africa and Asia

MSCI EAFE Index (International Large Caps) – A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S & Canada. It consists of the following 22 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI EAFE Small Cap (International Small Caps): The MSCI Developed Markets Small Cap Indices offer an exhaustive representation of this size segment by targeting companies that are in the Investable Market Index but not in the Standard Index in a particular developed market. The indices include Value and Growth style indices and industry indices based on the Global Industry Classification Standard (GICS).

MSCI Emerging Market Index (Emerging Markets Equities) – is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. As of June 2009 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI Emerging Market Small Cap Index (Emerging Market Small Caps) - The MSCI Emerging Markets Small Cap Index includes small cap representation across 23 Emerging Markets countries. With 1,875 constituents, the index covers approximately 14% of the free float-adjusted market capitalization in each country. The small cap segment tends to capture more local economic and sector characteristics relative to larger Emerging Markets capitalization segments.

Russell 2000 (U.S. Small Caps) – Measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

Russell Mid-cap (U.S. Mid Caps) – A subset of the Russell 1000 index, the Russell Midcap index measures the performance of the mid-cap segment of the U.S. equity universe. Based on a combination of their market cap and current index membership, includes approximately 800 of the smallest securities which represents approximately 27% of the total market capitalization of the Russell 1000 companies. The index is created to provide a full and unbiased indicator of the mid-cap segment.

Russell 1000: Based on a combination of their market cap and current index membership, this index consists of approximately 1,000 of the largest securities from the Russell 3000. Representing approximately 92% of the Russell 3000, the index is created to provide a full and unbiased indicator of the large cap segment.

Russell 3000: Representing approximately 98% of the investable U.S. equity market, the Russell 3000 index measures the performance of the largest 3,000 U.S. companies.

S&P 500 Index (U.S. Large Caps) – The index consists of 500 of the largest stocks in the U.S. stock market. A market value weighted index (stock price times number of shares outstanding after float adjustment), with each stock's weight in the index proportionate to its market value.

The Dow Jones Global Select REIT Index (Global Real Estate) - intends to measure the performance of publicly traded real estate securities. The indices are designed to serve as proxies for direct real estate investment, in part by excluding companies whose performance may be driven by factors other than the value of real estate. This index represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded globally.

Bloomberg Commodities Index (Commodities) - Formerly known as Dow Jones UBS Commodity Index (DJUBS). The Bloomberg Commodity Index is calculated on an excess return basis and composed of futures contracts on 22 physical commodities. It reflects the return of underlying commodity futures price movements.

German FSE DAX - The DAX Index is the benchmark index for the German equity market. It tracks the performance of 30 selected German blue chip stocks traded on the Frankfurt Stock Exchange, which represent around 80 percent of the market capitalization listed in Germany. The Index is free floating.

Euronext Paris CAC 40 - The CAC 40 Index is a benchmark French stock market index. It tracks the performance of 40 companies selected among the top 100 market capitalization and the most active listed equities traded on the NYSE Euronext Paris. The CAC 40 Index is free floating, modified capitalization-weighted index.

Peer Group Definitions

Illustrated peer groups may be subject to specific risks in addition to broad market risks. Peer groups are not available for direct investment.

Morningstar US OE Long/Short (Long/Short) - Long/short equity funds take a net long stock position, meaning the total market risk from the long positions is not completely offset by the market risk of the short positions. Long/short equity funds' total return, therefore, is a combination of the return from market exposure (beta) plus any value-added from stock-picking or market-timing (alpha).

Morningstar U.S. OE Multi-alternative (Multialternative) - These funds will use a combination of alternative strategies such as taking long and short positions in equity and debt, trading futures, or using convertible arbitrage, among others. Funds in this category have a majority of their assets exposed to alternative strategies and include both funds with static allocations to alternative strategies and funds tactically allocating among alternative strategies and asset classes.

Morningstar U.S. OE Managed Futures (Managed Futures) - These funds primarily trade liquid global futures, options, swaps, and foreign exchange contracts, both listed and over-the-counter. A majority of these funds follow trend-following, price-momentum strategies. Other strategies included in this category are systematic mean-reversion, discretionary global macro strategies, commodity index tracking, and other futures strategies.

Morningstar US OE Market Neutral (Market Neutral) - These are funds that attempt to eliminate the risks of the market by holding 50% of assets in long positions in stocks and 50% of assets in short positions. Funds in this group match the characteristics of their long and short portfolios, keeping factors such as P/E ratios and industry exposure similar. Stock picking, rather than broad market moves, should drive a market-neutral fund's performance.