

**THIRD QUARTER HIGHLIGHTS**



Central banks continued to support the markets and global economies with easy monetary policies.



Inflation remained positive, but below most central bank targets.



Most economies continued to expand, but slowly.



International equity and U.S. small caps led the way among positive returns across the spectrum of equities.

**MARKET UPDATE**

International equity, emerging markets and U.S. small caps led the way in the third quarter of 2016. The U.S. dollar pulled back against other currencies, easing a headwind on the U.S. economy, and earnings improved slightly, a positive factor that needs to continue for the overall health of domestic equities.

A climate of uncertainty – reflected in market drivers such as political elections, monetary policy, inflation and economic growth – contributed to increased volatility in September, and likely will be a factor for some time, spotlighting the importance of asset allocation and diversification for Freedom portfolios.

**EQUITY MARKET RETURNS**

Supported by easy central bank policies, equity holdings were solid performers for Freedom portfolios. Top contributors included emerging markets and U.S. small caps, while relative underperformers included U.S. large caps and equity income oriented investments. Even so, the Standard & Poor's 500, Dow Jones Industrial Average and Nasdaq all reached record highs – the S&P 500 went two months without a drop of more than 1%, gaining steadily – and for the fourth consecutive quarter ended on positive notes.

***The Fed Dilemma***

*In the days leading up to the U.S. Federal Reserve meeting in mid-September, with committee members indicating positive economic data supported an interest rate increase, the markets reacted negatively. When the Fed opted to leave the rate unchanged, markets responded positively. With the Fed admittedly eager to return to a normal interest-rate structure, and the economic data seeming to support such a move, it begs the question: If not in September, when? A rate change before or soon after the U.S. presidential election on Nov. 8 seems unlikely, so the focus will be on December. After a 0.25% increase in December 2015, lending rates remained near historic lows. So, it bears watching which will have a greater effect on the markets – the psychological aspect of a rate increase, or an actual increase.*

Asset Allocation and 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.

**International equities**

Buoyed by easy money, international equities outperformed U.S. equities for the first time since early 2015. Emerging-market large caps returned 9.03%, as measured by the MSCI Emerging Markets NR USD index, while emerging-market small caps returned 7.60%, as reflected by the MSCI Emerging Markets Small NR USD index. While the United Kingdom’s decision to leave the European Union remains the main political development so far this year – and its repercussions remain to be felt – the capital markets will watch eagerly the outcome of several European political elections to gauge whether the nationalism that prevailed in the UK exists elsewhere. Global central banks appear committed to accommodative policy, and the impact of this unconventional monetary policy is worth observing, as well.

**Domestic Equities**

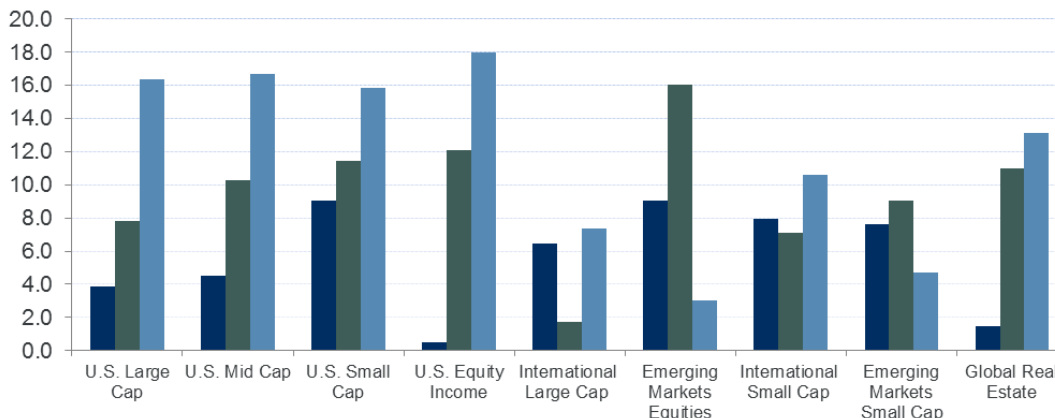
Investors should continue to pay attention to valuation, which is how much the market costs compared to how much it earns. U.S. small caps were a top contributor to Freedom portfolios in the third quarter, having experienced a recent market correction with regard to price-to-earnings valuations. U.S. small caps returned 9.05%, as measured by the Russell 2000 TR USD index.

U.S large-cap valuations continue to be elevated relative to other asset classes, prompting the AMS Investment Committee (IC) to maintain a cautious view of this asset class. U.S. large caps and equity income – comprised of large, typically reliable, dividend-paying companies – made only moderate contributions to Freedom portfolios in the third quarter. The S&P 500 returned 3.85% for the quarter, bringing its year-to-date returns to 7.84%. Equity income returned 0.48% for the quarter, as measured by the S&P 500 Dividend Aristocrats TR USD index, bringing its year-to-date returns to 12.07%.

**EQUITY RETURNS**

■ 3Q2016 ■ YTD ■ 5 Years

Source: Morningstar  
As of 9/30/2016



**Earnings**

U.S. equity earnings improved in the second quarter compared to a soft first quarter, up from \$21.72 to \$23.28. Though earnings continue to lag for the trailing year – down from \$94.91 on June 30, 2015, to \$86.92 on June 30, 2016 – the stabilization of oil prices and the dollar have the potential to be supportive. Increased earnings would

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provide corporations with the ability to generate better revenues and margins, which could potentially translate into better stock returns.

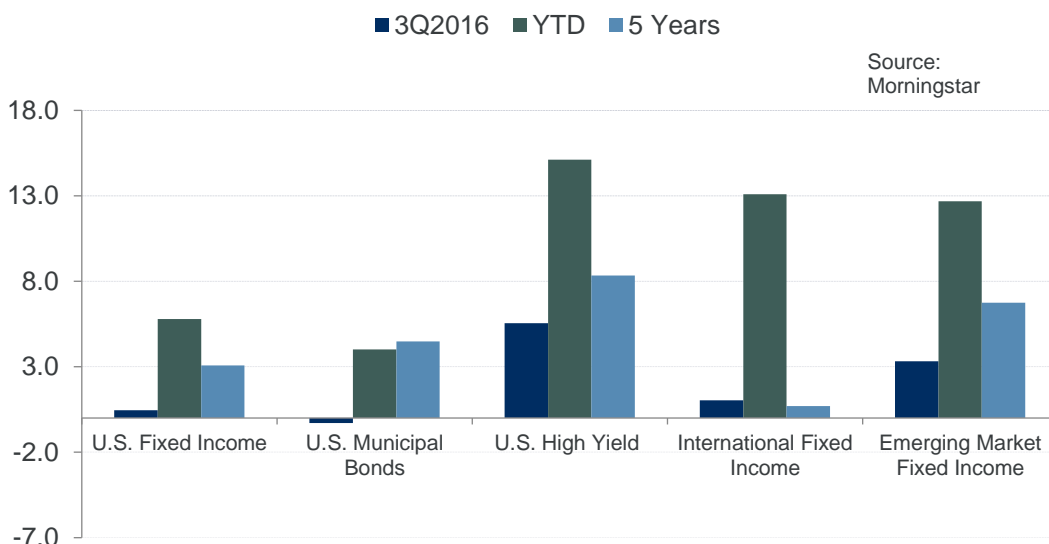
**FIXED INCOME MARKET RETURNS**

Despite equity market fluctuations, bond yields remained low across the globe, a reflection of accommodative monetary policies by central banks. Top contributors to several Freedom portfolios included high yield bonds, which returned 5.55% as reflected by the Barclays U.S. High Yield 2% Capped TR USD index, and emerging market external debt, which returned 4.04% as reflected by the JP Morgan EMBI Global Diversified TR USD index.

Detractors for the quarter included interest-rate-sensitive holdings. Short-duration Treasuries posted a loss of -0.11%, as reflected by the Barclays U.S. Treasury 1-3 Year TR USD index, while municipal bonds lost -0.30%, as reflected by the Barclays Municipal TR USD index. Both indices have posted positive returns year to date, at 1.33% and 4.16%, respectively.

The AMS IC views investment-grade fixed income as a way to mitigate the potential risks associated with owning equity securities.

**FIXED INCOME RETURNS**



**ALTERNATIVE MARKET RETURNS**

Multialternative and market-neutral strategies effectively balanced long and short positions. The U.S. OE Multialternative index posted a return of 0.85%, while the U.S. OE Market Neutral index posted a return of 0.76%. September proved elusive for managed futures, putting the return for the quarter for U.S. OE Managed Futures index in the negative at -1.84%. Year to date, managed futures are down slightly at -0.22%. With growing market volatility and elevated equity valuations, the AMS IC continues to see value in this asset class for its ability to help diversify portfolio risk, given its non-correlated relationship to equity and fixed income.

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### ALTERNATIVE INVESTMENT RETURNS



#### FINAL THOUGHTS

In much the same way people are uneasy with change, the markets are uncomfortable during times of uncertainty. The extreme nature of elections and/or referendums is a source of discomfort – at home and abroad. Already there is speculation about whether a deeply divided U.S. Federal Reserve will raise its lending rate in the fourth quarter – some committee members wanted an increase in September, while others do not see an increase at all in 2016. The world is biding its time through the UK’s prolonged withdrawal from the EU and awaits the message voters will send during elections in other leading nations.

Through it all, the capital markets continue to perform with the support of accommodative global money policies – even with elevated valuations for U.S. large caps and investors’ increasing wariness of an equities drawback. Such uncertainty underscores the AMS IC’s diligent approach to asset allocation and diversification as a potential way to mitigate downside risk in Freedom portfolios.

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**Further information on the funds selected for the Freedom portfolios is available by prospectus, which can be obtained through your financial advisor. Investors should carefully consider the investment objectives, risks, charges and expenses of mutual funds and exchange-traded funds before investing. All investments are subject to risk. The prospectus contains this and other information about the funds and should be read carefully before investing.**

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*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.*

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 not 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.

#### **INDEX DESCRIPTIONS:**

These indices are not available for direct investment. Any product which attempts to mimic the performance an index will incur expenses such as management fees and transaction costs that reduce returns.

**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** -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 issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds (PIKs, as of October 1, 2009) are also included.

**Barclays U.S. High Yield - 2% Issuer Cap (U.S. High Yield):** The index is the 2% Issuer Cap component of the U.S Corporate High Yield Index.

**Barclays Municipal 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 (Baa3/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.

**Dow Jones Industrial Average:** The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ. The DJIA was invented by Charles Dow back in 1896.

Often referred to as "the Dow," the DJIA is one of the oldest, single most-watched indices in the world and includes companies such as General Electric Company, the Walt Disney Company, Exxon Mobil Corporation and Microsoft Corporation. When the TV networks say "the market is up today," they are generally referring to the Dow.

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

**MSCI EAFE Index (International Large Cap):** 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 Cap):** 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 Index – USD (MSCI EM NR USD):** The MSCI Emerging Markets Index captures large and mid cap representation across 23 Emerging Markets (EM) countries\*. With 836 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

**MSCI Emerging Market Small Cap Index (Emerging Market Small Cap)** - 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 Cap)** - 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-Cap):** 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.

**S&P 500 Index (U.S. Large Cap):** 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.

**S&P 500 Dividend Aristocrats:** Companies in the S&P 500 who have increased their dividends for at least 25 consecutive years. The S&P 500 Dividend Aristocrats index tracks their performance, and is mainly comprised of large, well-known blue-chip companies. Standard & Poors will remove companies from the index if they fail to increase their dividends from the previous year. The index is updated annually in January.

**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.

**Morningstar US OE Long/Short peer group (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 peer group (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 peer group (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 Peer Group (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.

**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.

**JPM EMBI Global Diversified index:** The J.P. Morgan Emerging Markets Bond Index Global ("EMBI Global") tracks total returns for traded external debt instruments in the emerging markets, and is an expanded version of the EMBI+. The EMBI Global includes US dollar-denominated Brady bonds, loans, and Eurobonds with an outstanding face value of at least \$500 million.

**Nasdaq:** A global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks. Nasdaq was created by the National Association of Securities Dealers (NASD) to enable investors to trade securities on a computerized, speedy and transparent system, and commenced operations on February 8, 1971. The term "Nasdaq" is also used to refer to the Nasdaq Composite, an index of more than 3,000 stocks listed on the Nasdaq exchange that includes the world's foremost technology and biotech giants such as Apple, Google, Microsoft, Oracle, Amazon, Intel and Amgen.

**Russell 3000:** A market capitalization weighted equity index maintained by the Russell Investment Group that seeks to be a benchmark of the entire U.S. stock market. More specifically, this index encompasses the 3,000 largest U.S.-traded stocks, in which the underlying companies are all incorporated in the U.S.

#### TERMS & DEFINITIONS:

**Managed Futures:** Managed futures are part of an alternative investment strategy in which professional portfolio managers use futures contracts as part of their overall investment strategy. Managed futures provide portfolio diversification among various types of investment styles and asset classes to help mitigate portfolio risk in a way that is not possible in direct equity investments.

**Commodity:** A commodity is a basic good used in commerce that is interchangeable with other commodities of the same type. Commodities are most often used as inputs in the production of other goods or services. The quality of a given commodity may differ slightly, but it is essentially uniform across producers. When they are traded on an exchange, commodities must also meet specified minimum standards, also known as a basis grade.

**Quantitative easing program:** Quantitative easing is an unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase the money supply. Quantitative easing increases the money supply by flooding financial institutions with capital in an effort to promote increased lending and liquidity. Quantitative easing is considered when short-term interest rates are at or approaching zero, and does not involve the printing of new bank notes.

Not FDIC or NCUA Insured • No Bank Guarantee • May Lose Value

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