

### FIRST QUARTER HIGHLIGHTS



Global economies show signs of growth.



Investors remain confident in Trump administration policy initiatives.



U.S. large cap valuations inch higher.



U.S. interest-rate normalization continues.

### MARKET UPDATE

Amid signs of global economic growth, international equity surged and the U.S. equity rally continued during the first quarter of the year. Anticipation of a more business-friendly environment under the Trump administration fueled U.S. large caps. Investor confidence was unbowed by the U.S. Federal Reserve's commitment to return to a normal interest rate environment, taking in stride a 0.25% increase in the federal funds rate.

#### EQUITY

##### *Domestic Equity*

Seemingly immune to the forces of gravity, the U.S. large cap rally continued, providing positive returns for Freedom portfolios. Post-election investor confidence rolled into the new year with anticipation for Trump administration policy initiatives aimed at promoting economic growth, as well as positive data regarding unemployment and consumer confidence. The Dow Jones Industrial Average reached a new high of 20,000 in late January, only to reach another at 21,000 on March 1. For the quarter, domestic large caps returned 6.07%, as measured by the S&P 500 index. For comparison, the S&P 500's first-quarter average for the past 25 years was 1.8%. With policy initiatives viewed as being less beneficial to smaller companies, U.S. small to mid cap equity returned 3.76%, as measured by the Russell 2500 index, after posting a return of 17.59% in 2016.

#### *The Policy Effect*

*Anticipation of Trump administration policy initiatives continues to drive investor confidence, with the expectation a pro-business environment will foster economic growth. Overall, first-quarter gains in the U.S. equity market overshadowed a downturn in the S&P 500 in late March, in response to the Republican majority's inability to pass healthcare legislation. A 1.23% loss on March 21 represented the S&P 500's largest single-day decline since mid-October. Yet, the markets rose again before the quarter ended, with Congress and the White House expected to turn their attentions to tax-reform, trade relations and infrastructure spending. The relationship between the markets and the administration's policy efforts bears watching.*

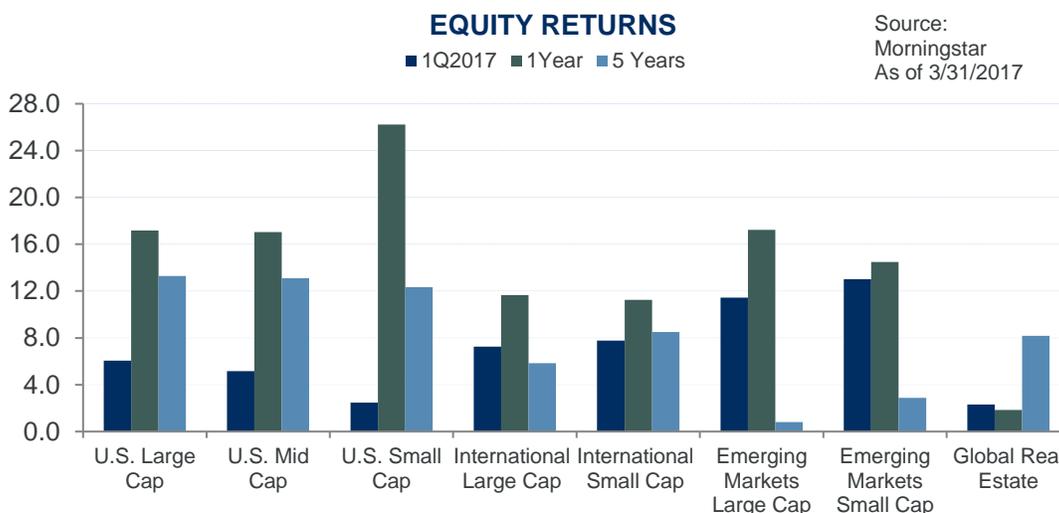
Market commentary is generic in nature and not necessarily specific to the Freedom objective discussed herein but will include information material to the Freedom platform in general. Freedom Commentary is generally written from a passive standpoint and there are limitations to this data as strategies include active management. Actively managed strategies and holdings may have reacted differently during the quarter than the market segments discussed herein. Indices and peer groups are not available for direct investment. Any investor who attempts to mimic the performance of an index and peer group would incur fees and expenses which would reduce returns. 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. Dividends are not guaranteed and a company's future ability to pay dividends may be limited.

### International Equity

For the second time in the past three quarters, international equity outpaced domestic equity, with several nations in Europe and Asia showing positive signs of economic growth. International developed markets returned 7.25%, as measured by the MSCI EAFE index, despite continued uncertainty regarding the United Kingdom’s withdrawal from the European Union, a two-year process that officially began on March 29. Likewise, emerging markets equity returned 11.45%, as measured by the MSCI EAFE Emerging Markets index, amid continued uncertainty regarding the effects of protectionist policies on developing markets. Improved earnings added momentum to already favorable price-to-earnings valuations in both asset classes, which also benefited from increased currency values.

### Freedom Portfolio Positioning

As the U.S. equity rally continues, large cap price-to-earnings valuations are near 15-year highs. Improved earnings are seemingly priced into the market anew, rather than serving to bring prices and earnings more closely in line. With U.S. large cap valuations elevated relative to other asset classes, the Asset Management Services (AMS) Investment Committee (IC) maintains a cautious view of domestic equity for Freedom portfolios, and will continue to monitor earnings to see if they grow into prices. Conversely, the AMS IC maintains a slightly favorable view of international equity, given its more favorable valuations and the potential for earnings to grow faster in these markets than in the United States.



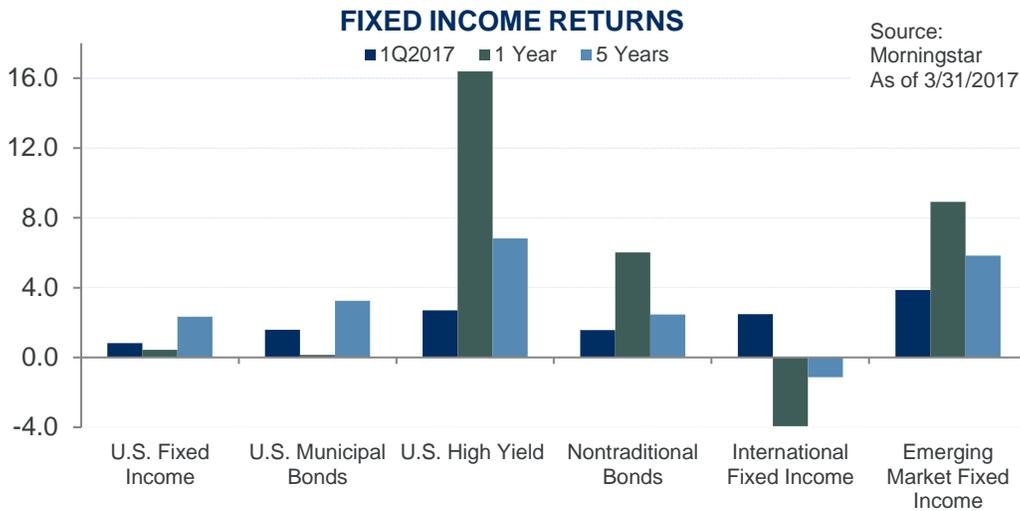
### FIXED INCOME

The U.S. Federal Reserve continued on its course toward interest rate normalization, raising the federal funds rate 0.25% in March, the second such increase in four months. Though the markets were largely unfazed – the previous increase caused a short period of increased volatility – the March increase combined with equity market gains to spell nearly flat returns for investment-grade bonds. Core fixed returned 0.82%, as measured by the Bloomberg Barclays Aggregate U.S. Bond index. Nontraditional bonds fared slightly better, returning 1.57%, as measured by the U.S. Fund Nontraditional Bond peer group.

For sector information relating to charts and commentary above, see index definitions on pages 5 through 7. Portfolio Positioning reflects the AMS IC’s general opinions regarding how exposure to various market sectors may help or hinder achieving the portfolio’s long term objective. The policy and sector allocations are subject to change without notice. Indices and peer groups are not available for direct investment. Any investor who attempts to mimic the performance of an index and peer group would incur fees and expenses which would reduce returns. 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. Dividends are not guaranteed and a company’s future ability to pay dividends may be limited.

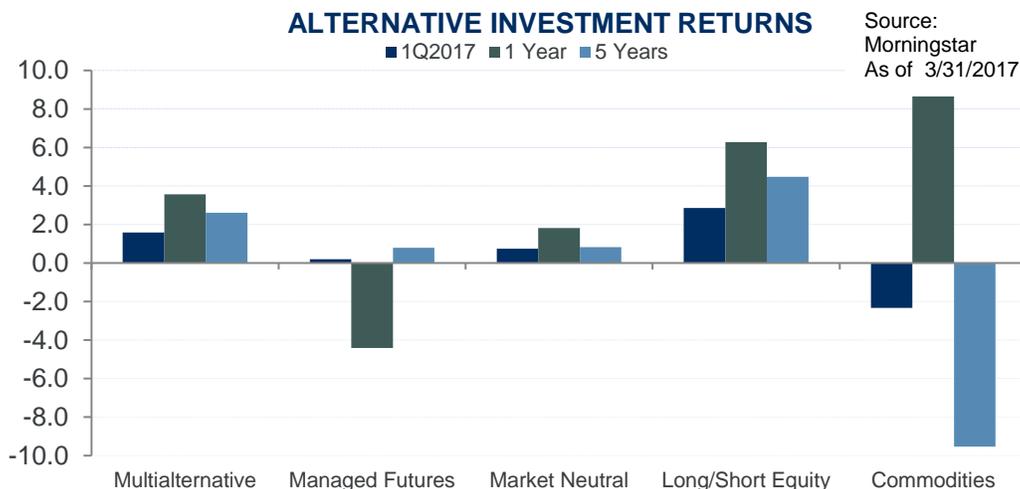
### Freedom Portfolio Positioning

The AMS IC holds a slightly favorable view of fixed income, for its ability to mitigate volatility during periods of equity downturn, especially given the elevated valuations of U.S. large cap stocks. Within the broad fixed income asset class, the IC holds a slightly unfavorable view of core fixed income, given the likelihood of additional interest rate increases, and a slightly favorable view of nontraditional fixed income for its diversification potential.



### ALTERNATIVES

With the equity and fixed income markets posting positive returns in the first quarter, alternative investments faced understandable headwinds, given their non-correlated relationship to the traditional markets. Alternatives returned 1.58%, as measured by the U.S. Fund Multialternative peer group. The AMS IC maintains a slightly favorable view of alternatives for their ability to serve as ballast during equity market downturn.



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## FINAL THOUGHTS

Trump administration policies, the U.S Federal Reserve's quest for interest-rate normalization, elections in leading European nations and the United Kingdom's negotiated withdrawal from the European Union have the potential to influence the markets in the coming months. Such uncertainties affirm the AMS IC's diligent approach to asset allocation and diversification for its potential to mitigate downside risk in Freedom portfolios.

**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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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 AND PEER GROUP DESCRIPTIONS:

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

**Bloomberg 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.

**Bloomberg Barclays Global Aggregate Ex USD TR USD (International Fixed Income):** A measure of global investment grade debt from twenty-four different local currency markets. This multi-currency benchmark includes fixed-rate treasury, government-related, corporate and securitized bonds from both developed and emerging markets issuers.

**Bloomberg 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.

**Bloomberg Commodity TR USD (Commodities):** The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. This combines the returns of the BCOM with the returns on cash collateral invested in 13 week (3 Month) U.S. Treasury Bills.

**Bloomberg Barclays Municipal TR USD (U.S. Municipal Bonds):** A market-value-weighted index for the long-term tax-exempt bond market. To be included in the index, bonds must have a minimum credit rating of Baa. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date.

**FTSE/NAREIT Developed Index (Global Real Estate):** The Index is designed to measure the stock performance of companies engaged in specific real estate activities of the North American, European and Asian real estate markets. Relevant real estate activities are defined as the ownership, trading and development of income-producing real estate.

**JPM EMBI Global Diversified TR USD (Emerging Market Fixed Income):** The index is an unmanaged, market-capitalization weighted, total-return index tracking the traded market for U.S.-dollar-denominated Brady bonds, Eurobonds, traded loans, and local market debt instruments issued by sovereign and quasi-sovereign entities.

**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 Emerging Market Index (Emerging Markets Equities):** 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 EM NR USD (Emerging Markets Large Cap):** The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey\* and United Arab Emirates. The MSCI EM NR USD takes only the large cap returns into account.

**MSCI EM Small NR USD (Emerging Markets Small Cap):** The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. The MSCI Emerging Markets Index consists of the following 23 emerging market country indexes: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey\* and United Arab Emirates. The MSCI EM NR USD takes only the small cap returns into account.

**Morningstar US OE Multialternative (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 US OE Nontraditional Bond (Nontraditional):** The category is meant as a home for funds that pursue strategies that diverge in some way from conventional practice in the bond-fund universe. The two most prominent flavors of funds in this new category typically describe themselves as pursuing either unconstrained or absolute return strategies. Funds in the unconstrained camp typically highlight their broad mandates to invest heavily across a wide spectrum of sectors and their ability to take their durations (a measure of interest-rate sensitivity) down to zero, or even negative. Absolute-return-focused funds usually emphasize their intent to generate positive returns and avoid losses, regardless of the market environment.

**Morningstar US OE Managed Futures (Managed Futures):** These funds typically take long and short positions in futures options, swaps, and foreign exchange contracts, both listed and over-the-counter, based on market trends or momentum. 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. More than 60% of these funds' exposure is invested through derivative securities.

**Morningstar US OE Long-Short Equity (Long/Short Equity):** This category's constituents take both long and short positions in equities and related derivatives with the intention of hedging against the downside.

**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.

**Russell 2500 (U.S. Small to Mid Cap):** A broad index featuring 2,500 stocks that cover the small and mid-cap market capitalizations. The Russell 2500 is a market cap weighted index that includes the smallest 2,500 companies covered in the Russell 3000 universe of United States-based listed equities.

**Russell 3000 Index:** Measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Russell 3000 Index is constructed to provide a comprehensive, unbiased, and stable barometer of the broad market and is completely reconstituted annually to ensure new and growing equities are reflected.

**Russell 2000 Index (U.S. Small Cap):** Measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 Index is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set.

**Russell Mid Cap TR USD (U.S. Mid Cap):** Measures the performance of those Russell Midcap companies with higher price-to-book ratios and

higher forecasted growth values. The stocks are also members of the Russell 1000 Growth index.

**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 Developed Ex US Small TR USD (International Small Cap):** Was formerly known as S&P/Citigroup EMI Growth World ex-U.S. Index. The S&P Developed ex-U.S. Small Cap Growth Index is a subset of the S&P Developed Broad Market Index. The Small Cap Index covers the lowest 15% of all publicly listed equities in the Broad Market Index within a given country with float-adjusted market values of U.S. \$100 million or more and annual dollar value traded of at least U.S. \$50 million in all included countries. S&P Developed ex-U.S. Small Cap Growth Index represents approximately 3,552 small-cap companies from the developed nations in North America, Europe, Africa/Middle East and Asia Pacific (excluding the United States) that exhibit strong growth characteristics.

**TERMS & DEFINITIONS:**

**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.

**Price to Earnings Valuation:** The price-earnings ratio (P/E Ratio) is the ratio for valuing a company that measures its current share price relative to its per-share earnings. The price-earnings ratio can be calculated as: Market Value per Share / Earnings per Share.

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