

Seeking a More Favorable Risk/Return Trade-off

Strategy Overview

Actively managed mid-cap growth strategy that relies on fundamental research and analysis to identify companies with strong and accelerating business momentum, increasing market acceptance and attractive valuations.

You should consider the investment objectives, risks, and charges and expenses of the variable product and its underlying fund options; or mutual funds offered through a retirement plan, carefully before investing. The prospectuses / prospectus summaries / information booklets contain this and other information, which can be obtained by contacting your local representative or by calling (800) 992-0180. Please read the information carefully before investing.

Key Takeaways

- For the quarter, the Strategy outperformed its benchmark, the Russell Midcap Growth index, due to stock selection effects
- Selection within the information technology sector, and to a lesser extent, the industrials sector, contributed the most to performance
- Stock selection within the communication services and real estate sectors detracted the greatest value
- This year, we anticipate higher corporate profits, particularly from the cyclical areas of the market, which should benefit from reopening and deployment of large amounts of cash on the sidelines

Current Strategy and Outlook

Significant progress in vaccination programs, states reopening, still highly accommodative government policy and the release of massive pent-up demand from excess consumer savings should drive economic growth well above trend throughout 2021. The prolongation of zero-bound interest rate policies from global central banks and virtually unrestrained fiscal expansion, including the latest \$1.9 trillion COVID-19 aid package, certainly raise the specter of inflation and fast rising bond yields. Whether, how much and how fast prices rise are debatable. We believe increases in both inflation and yields will be gradual enough, and the levels low enough, to not drastically tighten financial conditions.

The economic tailwinds forming have led to much better than expected 4Q20 earnings growth and should improve visibility going forward. Last year's equity market returns were largely driven by defensive, pandemic protected businesses and earnings multiple expansion. This year, we anticipate higher corporate profits, particularly from the cyclical areas of the market, which should benefit from reopening and deployment of large amounts of cash on the sidelines.

Portfolio Review

For the quarter, the Strategy outperformed its benchmark, the Russell Midcap Growth index, due to stock selection effects. Stock selection within the information technology sector, and to a lesser extent, the industrials sector, contributed the most to performance. Stock selection within the communication services and real estate sectors detracted the greatest value.

Stocks that contributed most to the quarter's performance were Quanta Services, Inc., Expedia Group, Inc. and Lam Research Corporation.

An overweight position in Quanta Services, Inc. (PWR) generated positive results during the period. In addition to solid execution, margin expansion and strong backlog growth, shares advanced on the expectation that PWR will benefit from the administration change in Washington, given its focus on green energy. PWR will grow topline growth at a high

single-digit compound annual growth rate (CAGR) in the medium-term as the company benefits from the continued electrification of the grid, further U.S. expansion of green power generation and the acceleration of the 5G rollout.

An overweight position in online travel company, Expedia Group, Inc. (EXPE) added value during the period. The stock continues to be rewarded for an imminent recovery in travel and its management's ability to navigate the volatility and manage costs. Investors view EXPE as a clear beneficiary of the significant pent-up consumer demand largely driven by its home rental business, Vrbo.

Owning a non-benchmark position in Lam Research Corporation (LRCX) generated positive results. The stock price advanced following its solid 2Q21 (December) earnings report and positive F3Q21 guidance. Investors gained further confidence in LRCX's ability gain share and capitalize on strong demand for semiconductors and wafer fabrication equipment (WFE) spending going into the remainder of the year.

Key detractors for the quarter were RingCentral, Inc., KLA Corporation and Nevro Corp.

Owning an overweight position in RingCentral, Inc. (RNG) detracted from results during the quarter. Despite reporting a fourth-quarter earnings per share (EPS) and revenue beat, and

guidance ahead of market expectations, the stock traded off on high expectations and valuation going into earnings.

Not owning semiconductor company, KLA Corporation (KLAC) detracted from results during the quarter. KLAC shares advanced on strong F2Q21 results and F3Q21 guidance well ahead of expectations due to broad-based strength and continued WFE demand.

Owning a non-benchmark position in medical device company, Nevro Corp. (NVRO), detracted from results during the quarter. Shares traded off on disappointing F21 guidance that came in below consensus due to a lingering COVID-19 impact to elective procedures in 1H21. With contributions from a new indication in painful diabetic neuropathy (PDN) expected to start ramping in 2H21+ and ongoing market share gains, we believe these headwinds are transitory and NVRO's attractive long-term growth prospects remain intact.

Holdings Detail

Companies mentioned in this report – percentage of portfolio investments, as of 03/31/21: Quanta Services, Inc. 2.89%, Expedia Group, Inc. 2.45%, Lam Research Corporation 2.23%, RingCentral, Inc. 2.61%, KLA Corporation 0%, Nevro Corp. 1.31%; 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to daily change.

The **Russell MidCap Growth Index** is an unmanaged index that measures the performance of those companies included in the Russell MidCap Index with relatively higher price-to-book ratios and higher forecasted growth values. The Index does not reflect fees, brokerage commissions, taxes or other expenses of investing. Investors cannot invest directly in an index.

Principal Risks: All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield. **Foreign Investing** poses special risks including currency fluctuation, economic and political risks not found in investments that are solely domestic. Investing in stocks of **Mid-Sized Companies** may entail greater volatility and less liquidity than larger companies. The Portfolio may use **Derivatives**, such as options and futures, which can be illiquid, may disproportionately increase losses and have a potentially large impact on Portfolio performance. Other risks of the Portfolio include but are not limited to: **Growth Investing Risks, Market Trends Risks, Other Investment Companies' Risks, Price Volatility Risks, Liquidity Risks, Securities Lending Risks and Portfolio Turnover Risks.** Investors should consult the Portfolio's Prospectus and Statement of Additional Information for a more detailed discussion of the Portfolio's risks. **An investment in the Portfolio is not a bank deposit and is not insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board or any other government agency.**

The strategy employs a quantitative model to execute the strategy. Data imprecision, software or other technology malfunctions, programming inaccuracies and similar circumstances may impair the performance of these systems, which may negatively affect performance. Furthermore, there can be no assurance that the quantitative models used in managing the strategy will perform as anticipated or enable the strategy to achieve its objective.

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Past performance is no guarantee of future results.

The opinions, views and information expressed in this commentary regarding holdings are subject to change without notice. The information provided regarding holdings is not a recommendation to buy or sell any security. Portfolio holdings are fluid and are subject to daily change based on market conditions and other factors.

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