

# Focusing on High-Quality Companies with Sustainable Growth Trends

## Strategy Overview

Actively managed small cap growth strategy driven by bottom-up fundamental research seeking high-quality companies with strong balance sheets and cash flow characteristics that are beneficiaries of sustainable growth trends.

**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.**

## Portfolio Review

For the quarter ended March 31, 2021, the strategy underperformed its benchmark, the Russell 2000 Growth index, primarily due to unfavorable stock selection. Most notably, stock selection within the retail sector detracted the most value. Despite a positive allocation effect from an underweight to the pharmaceutical and biotechnology, stock selection within the sector also detracted from results. Stock selection within the insurance and banks sectors contributed the greatest value.

Key detractors from performance were Plug Power Inc., Ontrak, Inc. and Q2 Holdings, Inc.

Not owning Plug Power Inc. (PLUG) earlier in the period was a headwind. The stock price advanced on the news of a \$1.5 billion investment from Korea-based SK Group to build a hydrogen platform in South Korea and broader Asia. Investors anticipate that this partnership will lead to significant long-term growth.

Owning an overweight position in Ontrak, Inc. (OTRK), a company that provides data analytics-based behavioral health management and integrated treatment services to health plans, detracted from results during the quarter. Shares traded off at the beginning of the month following its preannounced 4Q20 earnings report during which management noted the contract loss of its largest customer, Aetna, effective June 26, 2021. While earnings results came in ahead of expectations, this news weighed on the stock given the implied impact the loss will have on 2021 guidance.

An overweight position in Q2 Holdings, Inc. (QTwo), a software and services company that provides banking solutions, proved unfavorable during the quarter. The stock traded off along with its peers as investors rotated out of the higher-growth technology stocks. We believe the weakness to be short-term in nature and anticipate continued demand for its superior solutions which should drive upside in the longer term.

The main individual contributors to performance were Signature Bank, FuelCell Energy, Inc. and Concentrix Corporation.

Owning a non-benchmark position in NYC-based commercial bank, Signature Bank (SBNY), added value during the period. In addition to a well-received 4Q20 earnings report, which cited strong deposit and loan growth and continued momentum in its payment platform, Signet, shares advanced following an announced \$3.5 million capital raise which gave investors greater confidence in the company's deposit growth prospects moving forward.

An overweight position, at the beginning of the period, in FuelCell Energy, Inc. (FCEL), an environmentally responsible power generation solutions company, added value during the quarter. After completing two equity raises and having paid down corporate debt,

investors rewarded FCEL for its steady turnaround and healthier balance sheet. This progress fueled greater confidence in the company's ability to grow and become a viable player within the industry.

Owning a non-benchmark position in Concentrix Corporation (CNXC), a business process outsourcing (BPO) company that was spun-off from Synnex in December 2020, added value during the period following its well-received 1Q21 earnings report. Management cited strong organic growth driven by the tech end-market as well as e-commerce and healthcare. Further, investors gained greater confidence in its continued growth and market share gain, with FY21 guidance highlighting expectations for +10% organic growth and margins above 2019 pre-COVID levels.

## Current Strategy and Outlook

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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.

In this environment, owning small-cap companies with robust balance sheets is more important than ever. As long-term, disciplined investors we remain committed to our investment approach of focusing on high-quality companies with strong free cash flow and solid balance sheets. Going forward, we believe the portfolio is well positioned, as we think that investors will begin to focus on companies' fundamentals due to ongoing economic uncertainty.

## Holdings Detail

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Companies mentioned in this report – average percentage of Fund and Portfolio investments, as of 03/31/21: Plug Power Inc. 0.72%, Ontrak, Inc. 0.49%, Q2 Holdings, Inc. 1.37%, Signature Bank 0.70%, FuelCell Energy, Inc. 0% Concentrix Corporation 0.93%; 0% indicates that the security is no longer in the Fund. Portfolio holdings are subject to daily change.

**The Russell 2000 Growth Index** is an unmanaged index that measures the performance of securities of smaller U.S. companies with greater-than-average growth orientation. 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. In exchange for higher growth potential, investing in stocks of **Smaller Companies** may entail greater price volatility and less liquidity than investing in stocks of larger companies. 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, Portfolio Turnover Risks and Securities Lending 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.

The strategy is available as a mutual fund or variable portfolio. The mutual fund may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance that varies from stated performance. Please call your benefits office for more information.

Variable annuities and group annuities are long-term investments designed for retirement purposes. If withdrawals are taken prior to age 59½, an IRS 10% premature distribution penalty tax may apply. Money taken from the annuity will be taxed as ordinary income in the year the money is distributed. An annuity does not provide any additional tax deferral benefit, as tax deferral is provided by the plan. Annuities may be subject to additional fees and expenses to which other tax-qualified funding vehicles may not be subject. However, an annuity does provide other features and benefits, such as lifetime income payments and death benefits, which may be valuable to you.

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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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