

## AIA S&P 500<sup>®</sup> (Large Cap) Strategy

QUARTERLY PORTFOLIO COMMENTARY (CASH FUNDED AFTER-TAX COMPOSITE)

US equity markets posted strong results during the quarter. Investors were rewarded with improving inflation data resulting in the Federal Reserve skipping a rate hike during their June meeting. The annual US inflation rate was down marginally in June but remained stubbornly high, at 4.0%, compared with the Fed's 2% target. To tame inflation, the Fed signaled that a Q3 rate hike might be necessary. US economic growth moderated with GDP increasing at an annual rate of 2.0% in the first quarter of 2023, down from 2.6% in the fourth quarter of 2022. US unemployment ticked up slightly to 3.6% in June, but employment resilience and the resolution of the debt ceiling uncertainty spurred markets higher. Financials rebounded in the wake of the March banking crisis, albeit not at the exuberant pace of many artificial intelligence and semiconductor related equities that led US equity markets during the quarter.

Geopolitical uncertainties, including the Russia-Ukraine conflict, continued to weigh on investor sentiment, but strong employment data and economic resilience helped bolster investor optimism and ease fears of a hard landing. The S&P 500<sup>®</sup> Index rose 8.7% for the quarter, with significant dispersion between sectors. Information technology (+17.2%), consumer discretionary (+14.6%), communication services (+13.1%), and industrials (+6.5%) were the most notable positive performing sectors in the index. Utilities (-2.5%) and energy (-0.9%) were the only negative performing sectors in the index. Growth and large cap outpaced value and small cap on a relative basis. The Russell 1000<sup>®</sup> Value Index rose by +4.1% compared to an increase of +12.8% in the Russell 1000<sup>®</sup> Growth Index, and the Russell 1000<sup>®</sup> Index rose by +8.6% compared to an increase of +5.2% in the Russell 2000<sup>®</sup> Index.

During the quarter, the AIA S&P 500<sup>®</sup> Strategy underperformed its benchmark before taxes and net of 0.30% fees by -0.68%. The strategy underperformed over the period on an after-tax and net of 0.30% fee basis by -0.41%. After-tax returns benefited from an increase in opportunities to harvest losses, with dispersion in sector performance and sustained volatility from the second quarter. Tax alpha was positive and added 0.26% during the period.

Year to date, the AIA S&P 500<sup>®</sup> Strategy underperformed its benchmark before taxes and net of 0.30% fees by -2.67%. The strategy underperformed over the period on an after-tax and net of 0.30% fee basis by -1.55%. Tax alpha was positive and contributed 1.12% for the period.

The AIA S&P 500<sup>®</sup> Strategy seeks to provide a pre-tax return similar to the performance of the S&P 500<sup>®</sup> Index and seeks to outperform the benchmark on an after-tax basis by proactively realizing losses. AIA's managers use a stratified sampling methodology to select a subset of stocks from the index while seeking sector-neutral weights and diversification across market capitalization. Individual account performance may vary due to restrictions at the account level such as security exclusions, capital gain budgets, and other restrictions.

Monetary policy and the trajectory of the economy remain top of mind for investors. Inflation, growth expectations, the lengthy Russia-Ukraine war, and recessionary risks continue to remain key uncertainties for investors as economists evaluate expectations of economic growth and recessionary risks in their forecasts. While volatility has subsided, uncertainties persist, and investors should remain mindful of the breadth of scenarios facing them. Active fundamental research, combined with investment discipline, may be the best approach in the months to come.

## AIA S&P 500<sup>®</sup> (Large Cap) Strategy – Annualized Returns (as of 6/30/2023)

AIA S&P 500 <sup>®</sup> Cash Funded After-Tax Composite Pure Gross Returns	Pre-Tax			After-Tax			Tax Alpha
	Composite Pure Gross Return	Benchmark Return (S&P 500 <sup>®</sup> )	Difference	Composite Pure Gross Return	Estimated Benchmark Return	Difference	
3 months	8.15%	8.74%	-0.60%	8.02%	8.35%	-0.33%	0.26%
1 year	18.92%	19.59%	-0.68%	21.81%	17.84%	3.97%	4.65%
3 years	13.88%	14.60%	-0.72%	16.80%	12.87%	3.93%	4.65%
5 years	12.16%	12.31%	-0.15%	15.85%	10.60%	5.25%	5.40%
10 years	12.58%	12.86%	-0.29%	14.82%	11.32%	3.51%	3.79%
Since inception 11/01/2002	10.36%	10.28%	0.08%	12.92%	9.18%	3.74%	3.65%

AIA S&P 500 <sup>®</sup> Cash Funded After-Tax Composite Net 0.30% Returns	Pre-Tax			After-Tax			Tax Alpha
	Composite Net 0.30% Return	Benchmark Return (S&P 500 <sup>®</sup> )	Difference	Composite Net 0.30% Return	Estimated Benchmark Return	Difference	
3 months	8.07%	8.74%	-0.68%	7.94%	8.35%	-0.41%	0.26%
1 year	18.57%	19.59%	-1.03%	21.45%	17.84%	3.61%	4.64%
3 years	13.54%	14.60%	-1.06%	16.45%	12.87%	3.58%	4.64%
5 years	11.82%	12.31%	-0.48%	15.51%	10.60%	4.91%	5.39%
10 years	12.24%	12.86%	-0.62%	14.48%	11.32%	3.17%	3.79%
Since inception 11/01/2002	10.03%	10.28%	-0.24%	12.58%	9.18%	3.40%	3.65%

AIA S&P 500 <sup>®</sup> Cash Funded After-Tax Composite Net Bundled Fee Returns <sup>1</sup>	Pre-Tax			After-Tax			Tax Alpha
	Composite Net Bundled Fee Return	Benchmark Return (S&P 500 <sup>®</sup> )	Difference	Composite Net Bundled Fee Return	Estimated Benchmark Return	Difference	
3 months	7.36%	8.74%	-1.39%	7.23%	8.35%	-1.12%	0.26%
1 year	15.44%	19.59%	-4.15%	18.26%	17.84%	0.42%	4.57%
3 years	10.54%	14.60%	-4.06%	13.38%	12.87%	0.51%	4.57%
5 years	8.86%	12.31%	-3.44%	12.46%	10.60%	1.86%	5.30%
10 years	9.28%	12.86%	-3.59%	11.46%	11.32%	0.14%	3.73%
Since inception 11/01/2002	7.12%	10.28%	-3.16%	9.61%	9.18%	0.43%	3.58%

**Performance data shown represents past performance and is no guarantee of, and not necessarily indicative of, future results.** As portfolios are actively managed, holdings are subject to change. The securities discussed herein do not represent all of the securities purchased, sold or recommended. The reader should not assume that an investment in these securities was or will be profitable. A complete list of all past recommendations made within the immediately preceding 12-month period is available upon request.

<sup>1</sup> The assumed model bundled fee used is 3.0% and has been retroactively applied since inception

S&P 500<sup>®</sup> Index is a widely recognized measure of US stock market performance. It is an unmanaged index of 500 common stocks chosen for market size, liquidity, and industry group representation, among other factors. It also measures the performance of the large-cap segment of the US equities market.

Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the Nasdaq.

Russell 1000<sup>®</sup> Growth Index is an unmanaged index that measures the performance of the large-cap growth segment of the US equity universe. It includes those Russell 1000<sup>®</sup> companies with higher price-to-book ratios and higher forecasted growth values. Russell 1000<sup>®</sup> Value Index is an unmanaged index that measures the performance of the large-cap value segment of the US equity universe. It includes those Russell 1000<sup>®</sup> companies with lower price-to-book ratios and lower expected growth values. The Russell 1000<sup>®</sup> Index measures the performance of the large-cap segment of the US equity universe. It is a subset of the Russell 3000<sup>®</sup> Index and includes approximately 1000 of the largest securities based on a combination of

their market cap and current index membership. The Russell 1000<sup>®</sup> represents approximately 92% of the US market. The Russell 1000<sup>®</sup> Index is constructed to provide a comprehensive and unbiased barometer for the large-cap segment and is completely reconstituted annually to ensure new and growing equities are reflected. Russell 2000<sup>®</sup> Index is an unmanaged index that measures the performance of the small-cap segment of the US equity universe.

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Tax alpha is the benefit of loss harvesting, which is assumed to be used to offset gains inside or outside the portfolio in the period they are incurred, and thus credited to the portfolio returns. The after-tax benchmark is an estimate based upon the average capital gain realization rate and dividend yield of the index. Both after-tax calculations using the maximum federal tax rate and 0% state tax, and the maximum federal and state tax rates for dividends and capital gains are displayed.

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