

AIA S&P 1500[®] Strategy (All Cap)



QUARTERLY PORTFOLIO COMMENTARY (CASH FUNDED AFTER-TAX COMPOSITE)

US equity markets continued to rise during the quarter, with the S&P 500[®] Index, DJIA, and NASDAQ composites all setting new record milestones during the period. Mostly positive third quarter earnings results (based on companies within the S&P 500[®] Index), positive expectations on a potential China-US trade deal, and the Federal Reserve's accommodative monetary policy lifted equities higher during the quarter, despite rising geopolitical risks (trade policy tensions, global growth concerns, and Brexit negotiations) and fiscal policy uncertainty. Mixed economic and survey data (weak US consumer confidence in December, rising US new home sales and better than forecasted US home starts, and positive GDP growth) along with trade policy concerns drove the Federal Reserve to cut interest rates in October but hold rates steady in December. United States GDP grew at an annual rate of 2.1% in the third quarter of 2019, slightly up from 2.0% in the second quarter. US employment continues to show strength and stability with the November unemployment rate of 3.5%, maintaining a level of 4.0% or less for 21 consecutive months. The S&P 500[®] Index rose 9.1% during the quarter, with information technology (+14.4%), healthcare (+14.4%), financials (+10.5%), and communication services (+9.0%) among the best performing sectors. During the quarter, real estate (-0.5%) was the only negatively performing sector in the index. Growth and small-cap outpaced value and large-cap on a relative basis. The Russell 1000[®] Growth Index rose by 10.6% compared to an increase of 7.4% in the Russell 1000[®] Value Index, and the Russell 2000[®] Index rose by 9.9% compared to an increase of 9.0% in the Russell 1000[®] Index.

During the quarter, the AIA S&P 1500[®] Strategy (All Cap) underperformed its benchmark before taxes and net of 0.30% fees by -0.75%. The strategy underperformed over the period on an after-tax basis by -0.37%. After-tax returns were negatively impacted as opportunities to harvest losses lessened as volatility decreased during the strong up market in the fourth quarter. Tax alpha was positive and added value (+0.38%) during the period.

Year to date, the AIA S&P 1500[®] Strategy (All Cap) underperformed its benchmark before taxes and net of 0.30% fees by -1.26%. The strategy outperformed over the period on an after-tax basis by 0.31%. Tax alpha contributed value (+1.58%) for the period.

The AIA S&P 1500[®] Strategy (All Cap) seeks to provide a pre-tax return similar to the performance of the S&P 1500[®] 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.

US trade policy and interest rate expectations continue to be at the forefront of investors' focus during the next quarter, as investors evaluate growth expectations. From a global perspective, trade policy tensions (US-China trade talks and Brexit negotiations), global monetary policy, and other geopolitical risks continue to take the spotlight as investors monitor global economic growth. These uncertainties along with US elections in November and fourth quarter earnings results may lead to market volatility. Rigorous fundamental research and investment discipline may be the winning recipe, as global growth and geopolitical uncertainties continue to buffet the market.

AIA S&P 1500[®] Strategy (All Cap) – Annualized Returns (as of 12/31/2019)

AIA S&P 1500 [®] Cash Funded After-Tax Composite Pure Gross Returns	Pre-Tax			After-Tax			Tax Alpha
	Composite Pure Gross Return	Benchmark Return (S&P 1500 [®])	Difference	Composite Pure Gross Return	Estimated Benchmark Return	Difference	
3 months	8.25%	8.92%	-0.67%	8.20%	8.49%	-0.29%	0.38%
1 year	30.02%	30.90%	-0.88%	29.57%	28.87%	0.69%	1.58%
3 years	15.16%	14.65%	0.51%	16.92%	13.06%	3.86%	3.35%
5 years	11.46%	11.46%	0.00%	13.05%	10.03%	3.03%	3.03%
10 years	13.39%	13.52%	-0.13%	14.25%	12.31%	1.94%	2.07%
Since inception 09/01/2003	9.46%	9.74%	-0.28%	11.29%	8.67%	2.62%	2.90%

AIA S&P 1500 [®] Cash Funded After-Tax Composite Net 0.30% Returns	Pre-Tax			After-Tax			Tax Alpha
	Composite Net 0.30% Return	Benchmark Return (S&P 1500 [®])	Difference	Composite Net 0.30% Return	Estimated Benchmark Return	Difference	
3 months	8.17%	8.92%	-0.75%	8.12%	8.49%	-0.37%	0.38%
1 year	29.64%	30.90%	-1.26%	29.19%	28.87%	0.31%	1.58%
3 years	14.82%	14.65%	0.17%	16.57%	13.06%	3.51%	3.34%
5 years	11.13%	11.46%	-0.33%	12.72%	10.03%	2.69%	3.02%
10 years	13.05%	13.52%	-0.47%	13.91%	12.31%	1.60%	2.07%
Since inception 09/01/2003	9.14%	9.74%	-0.61%	10.96%	8.67%	2.29%	2.90%

AIA S&P 1500 [®] Cash Funded After-Tax Composite Net Wrap Fee Returns ¹	Pre-Tax			After-Tax			Tax Alpha
	Composite Net Wrap Fee Return	Benchmark Return (S&P 1500 [®])	Difference	Composite Net Wrap Fee Return	Estimated Benchmark Return	Difference	
3 months	7.59%	8.92%	-1.33%	7.54%	8.49%	-0.95%	0.38%
1 year	26.87%	30.90%	-4.03%	26.43%	28.87%	-2.44%	1.59%
3 years	12.53%	14.65%	-2.11%	14.25%	13.06%	1.20%	3.31%
5 years	8.98%	11.46%	-2.48%	10.54%	10.03%	0.51%	2.99%
10 years	10.92%	13.52%	-2.61%	11.76%	12.31%	-0.55%	2.06%
Since inception 09/01/2003	7.15%	9.74%	-2.59%	8.95%	8.67%	0.27%	2.86%

¹ Prior to 6/1/2009 net of fees performance reflects a deduction of a 2% annual wrap program fee, for the periods 6/1/2009 to 7/31/2018 2.18%, and 2.5% thereafter.

AIA S&P 1500[®] Strategy (All Cap) – Market Cap Allocations % (as of 12/31/2019)

Market cap size	Percentage of total portfolio	S&P 1500
Large (>10B)	92.83	90.21
Mid (2.5B to 10B)	5.75	7.50
Small (<2.5B)	1.42	2.28

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.

S&P 1500[®] Composite Index is an investable US equity benchmark. The S&P Composite 1500[®] combines three leading indices, the S&P 500[®], the S&P MidCap 400, and the S&P SmallCap 600, to cover approximately 90% of the US market capitalization. It is designed for investors seeking to replicate the performance of the US equity market or benchmark against a representative universe of tradable stocks. 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[®] 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[®] companies with higher price-to-book ratios and higher forecasted growth values. Russell 1000[®] 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[®] companies with lower price-to-book ratios and lower expected growth values. The Russell 1000[®] Index measures the performance of the large-cap segment of the US equity universe. It is a subset of the Russell 3000[®] Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000[®] represents approximately 92% of the US market. The Russell 1000[®] 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[®] 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. The maximum federal and state tax rates for dividends and capital gains are utilized in the after-tax calculations.

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