

## AIA S&P 600<sup>®</sup> (Small Cap) Strategy

QUARTERLY PORTFOLIO COMMENTARY (CASH FUNDED AFTER-TAX COMPOSITE)

US equity markets soared in the fourth quarter, as the Fed confirmed a pause in rate rises, inflation continued to moderate, and the US economy hit its longest streak of unemployment below 4% since the Vietnam war. As a potential soft landing came into focus, investor optimism buoyed risk assets across equity and fixed income. Annual US inflation declined to 3.1% in November from 3.7% in August. Unemployment remained steady at 3.7% in December, up slightly from September levels. United States GDP rose by an annual rate of 4.9% in the third quarter of 2023, up significantly from 2.1% in the second quarter of 2023. The S&P 500<sup>®</sup> Index rose +11.7% for the quarter, with broadly positive results. Real Estate (+18.8%), Information Technology (+17.2%), Financials (+14.0%) and Industrials (+12.4%) were the top performers during the quarter. Energy (-6.9%) was the only negative returner during the quarter, though consumer staples (+5.5%) and Health Care (+6.4%) failed to keep up with an exuberant market. Growth and small-cap were the top performers during the quarter. The Russell 1000<sup>®</sup> Growth Index (+14.5%) outperformed the Russell 1000<sup>®</sup> Value Index (+9.5%), and the Russell 2000<sup>®</sup> Index (+14.0%) outperformed the Russell 1000<sup>®</sup> Index (+12.0%).

During the quarter, the AIA S&P 600<sup>®</sup> Strategy outperformed its benchmark before taxes and net of 0.35% fees by +0.55%. The strategy underperformed over the period on an after-tax and net of 0.35% fee basis by -0.14%. After-tax returns benefited from an increase in opportunities to harvest losses due to sustained volatility from the fourth quarter. Tax alpha was negative and detracted -0.68% during the period.

Year to date, the AIA S&P 600<sup>®</sup> Strategy outperformed its benchmark before taxes and net of 0.35% fees by +2.07%. The strategy outperformed over the period on an after-tax and net of 0.35% fee basis by +7.62%. Tax alpha was positive and contributed +5.55% for the period.

The AIA S&P 600<sup>®</sup> Strategy seeks to provide a pre-tax return similar to the performance of the S&P 600<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.

Investors remain focused on monetary policy and the trajectory of economic growth. While economic data and investor sentiment have improved significantly, recessionary risks remain. Geopolitical and macroeconomic risks may continue to drive market volatility and dispersion as multiple active wars, election years, and other potential conflicts play out over 2024. We continue to believe that active fundamental research combined with investment discipline provides an attractive way to navigate an uncertain and reactionary market environment.

## AIA S&P 600® (Small Cap) Strategy – Annualized Returns (as of 12/31/2023)

AIA S&P 600® Cash Funded After-Tax Composite Pure Gross Returns	Pre-Tax			After-Tax			Tax Alpha
	Composite Pure Gross Return	Benchmark Return (S&P 600®)	Difference	Composite Pure Gross Return	Estimated Benchmark Return	Difference	
3 months	15.76%	15.12%	0.64%	14.38%	14.42%	-0.04%	-0.69%
1 year	18.54%	16.05%	2.48%	21.19%	13.15%	8.04%	5.56%
3 years annualized	7.50%	7.28%	0.21%	13.13%	3.96%	9.17%	8.96%
5 years annualized	10.74%	11.03%	-0.29%	17.69%	7.78%	9.91%	10.20%
Since inception 05/01/2016	9.76%	10.37%	-0.61%	15.29%	7.25%	8.04%	8.65%

AIA S&P 600® Cash Funded After-Tax Composite Net 0.35% Returns	Pre-Tax			After-Tax			Tax Alpha
	Composite Net 0.35% Return	Benchmark Return (S&P 600®)	Difference	Composite Net 0.35% Return	Estimated Benchmark Return	Difference	
3 months	15.67%	15.12%	0.55%	14.29%	14.42%	-0.14%	-0.68%
1 year	18.13%	16.05%	2.07%	20.77%	13.15%	7.62%	5.55%
3 years annualized	7.12%	7.28%	-0.16%	12.74%	3.96%	8.78%	8.94%
5 years annualized	10.36%	11.03%	-0.67%	17.29%	7.78%	9.51%	10.18%
Since inception 05/01/2016	9.38%	10.37%	-0.99%	14.89%	7.25%	7.64%	8.63%

AIA S&P 600® 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 600®)	Difference	Composite Net Bundled Fee Return	Estimated Benchmark Return	Difference	
3 months	14.94%	15.12%	-0.18%	13.56%	14.42%	-0.86%	-0.68%
1 year	15.07%	16.05%	-0.98%	17.65%	13.15%	4.50%	5.48%
3 years annualized	4.33%	7.28%	-2.95%	9.82%	3.96%	5.85%	8.81%
5 years annualized	7.48%	11.03%	-3.55%	14.25%	7.78%	6.47%	10.02%
Since inception 05/01/2016	6.53%	10.37%	-3.84%	11.91%	7.25%	4.66%	8.50%

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

## AIA S&P 600® (Small Cap) Strategy – Market Cap Allocations (as of 12/31/2023)

Market cap size	Percentage of total portfolio	S&P 600® Index
Large (>10B)	0.00%	0.00%
Mid (2.5B to 10B)	61.66%	54.11%
Small (<2.5B)	38.34%	45.89%

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The S&P SmallCap 600 covers approximately 3% of the domestic equities market. Measuring the small-cap segment of the market that is typically renowned for poor trading liquidity and financial instability, the index is designed to be an efficient portfolio of companies that meet specific inclusion criteria to ensure that they are investable and financially viable.

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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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