

# Morningstar ETF Allocation Series

Commentary | September 30, 2023

Performance as of 9/30/2023

	Cumulative			Annualized						Expense Ratios	
	1 M	3 M	YTD	1 Y	3 Y	5 Y	10 Y	15 Y	SI <sup>1</sup>	Total Operating Expenses	What You Pay <sup>4</sup>
Aggressive Class I (NAV)	-3.96%	-2.96%	5.73%	17.72%	8.43%	5.47%	6.81%	6.96%	5.01%	<b>0.64%</b>	0.64%
Aggressive Class II (NAV)	-4.01%	-3.08%	5.56%	17.38%	8.15%	5.19%	6.54%	6.69%	4.75%	<b>0.89%</b>	0.89%
Aggressive Growth Blended Benchmark - 1 (95% Equity) <sup>2</sup>	-4.14%	-3.15%	9.84%	19.79%	7.33%	7.03%	8.75%	9.03%	6.83%		
Aggressive Growth Blended Benchmark - 2 (95% Equity) <sup>3</sup>	-4.13%	-3.15%	9.73%	19.65%	7.38%	7.04%	8.74%	8.98%	6.76%		
95% S&P 500 / 5% Bloomberg US Aggregate Bond Index	-4.66%	-3.27%	12.33%	20.53%	9.38%	9.48%	11.40%	10.89%	8.60%		
Balanced Class I (NAV)	-3.24%	-2.57%	3.90%	11.95%	3.75%	3.65%	4.77%	5.43%	4.24%	<b>0.63%</b>	0.63%
Balanced Class II (NAV)	-3.20%	-2.63%	3.74%	11.76%	3.48%	3.40%	4.51%	5.17%	3.98%	<b>0.88%</b>	0.88%
Balanced Blended Benchmark - 1 (60% Equity) <sup>2</sup>	-3.56%	-3.14%	5.75%	13.01%	2.57%	4.51%	5.94%	6.78%	5.45%		
Balanced Blended Benchmark - 2 (60% Equity) <sup>3</sup>	-3.56%	-3.14%	5.69%	12.93%	2.60%	4.51%	5.93%	6.75%	5.41%		
60% S&P 500 / 38% Bloomberg US Aggregate Bond / 2% ICE BofAML Treasury 3 Month Index - TR	-3.82%	-3.15%	7.33%	13.10%	4.16%	6.31%	7.74%	7.99%	6.61%		
Conservative Class I (NAV)	-2.31%	-2.12%	1.46%	5.46%	-1.31%	1.24%	1.98%	2.87%	2.66%	<b>0.69%</b>	0.61%
Conservative Class II (NAV)	-2.23%	-2.13%	1.37%	5.32%	-1.53%	1.01%	1.74%	2.61%	2.40%	<b>0.94%</b>	0.86%
Conservative Blended Benchmark - 1 (20% Equity) <sup>2</sup>	-2.68%	-2.80%	1.59%	5.75%	-2.26%	1.50%	2.60%	3.79%	3.44%		
Conservative Blended Benchmark - 2 (20% Equity) <sup>3</sup>	-2.67%	-2.80%	1.57%	5.73%	-2.25%	1.50%	2.59%	3.78%	3.43%		
20% S&P 500 / 73% Bloomberg US Aggregate Bond / 7% ICE BofAML Treasury 3 Month Index - TR	-2.78%	-2.91%	1.91%	4.99%	-1.64%	2.37%	3.38%	4.32%	3.96%		
Growth Class I (NAV)	-3.58%	-2.82%	5.15%	15.27%	6.24%	4.76%	6.01%	6.42%	4.78%	<b>0.62%</b>	0.62%
Growth Class II (NAV)	-3.58%	-2.89%	4.97%	14.97%	5.97%	4.51%	5.74%	6.14%	4.51%	<b>0.87%</b>	0.87%
Growth Blended Benchmark - 1 (80% Equity) <sup>2</sup>	-3.89%	-3.15%	8.04%	16.86%	5.25%	5.95%	7.53%	8.06%	6.24%		
Growth Blended Benchmark - 2 (80% Equity) <sup>3</sup>	-3.89%	-3.15%	7.96%	16.75%	5.28%	5.95%	7.52%	8.02%	6.19%		
80% S&P 500 / 20% Bloomberg US Aggregate Bond Index	-4.32%	-3.25%	10.12%	17.28%	7.08%	8.15%	9.85%	9.69%	7.80%		
Income and Growth Class I (NAV)	-2.75%	-2.32%	3.03%	8.87%	1.29%	2.59%	3.44%	4.19%	3.47%	<b>0.65%</b>	0.62%
Income and Growth Class II (NAV)	-2.68%	-2.38%	2.83%	8.64%	1.03%	2.35%	3.18%	3.93%	3.21%	<b>0.90%</b>	0.87%
Income & Growth Blended Benchmark - 1 (40% Equity) <sup>2</sup>	-3.15%	-3.01%	3.62%	9.32%	0.10%	3.03%	4.30%	5.34%	4.51%		
Income & Growth Blended Benchmark - 2 (40% Equity) <sup>3</sup>	-3.14%	-3.01%	3.58%	9.27%	0.11%	3.03%	4.29%	5.33%	4.48%		
40% S&P 500 / 55% Bloomberg US Aggregate Bond / 5% ICE BofAML Treasury 3 Month Index - TR	-3.28%	-3.01%	4.63%	9.03%	1.30%	4.40%	5.58%	6.18%	5.32%		

**Performance data quoted represents past performance. Past performance is no guarantee of future results so that shares, when redeemed, may be worth more or less than their original cost. The investment return and principal value will fluctuate. Current performance may be higher or lower than the performance quoted. For current month-end performance call 1-866-759-5679 or visit [www.alpsfunds.com](http://www.alpsfunds.com).**

The performance shown does not reflect the impact of costs associated with variable contracts, qualified pension and retirement plans or registered and unregistered separate accounts which, when deducted, will reduce the return figures quoted.

<sup>1</sup> Fund inception date: 4/30/2007

<sup>2</sup> Effective 4/28/2023, the Morningstar US Market Extended Index replaced the Russell 3000 Index as a component of the Funds' primary benchmark. The Aggressive Growth Blended Benchmark - 1 (95% Equity) is a blended benchmark consisting of 67% Morningstar US Market Extended Index - TR / 28% Morningstar Global Markets ex-US Index - NR / 3% Bloomberg US Universal Index - TR / 2% ICE BofAML Treasury 3 Month Index - TR. The Balanced Blended Benchmark - 1 (60% Equity) is a blended benchmark consisting of 42% Morningstar US Market Extended Index - TR / 18% Morningstar Global Markets ex-US Index - NR / 32% Bloomberg US Universal Index - TR / 6% FTSE WGBI Non-USD Index / 2% ICE BofAML Treasury 3 Month Index - TR. The Conservative Blended Benchmark - 1 (20% Equity) is a blended benchmark consisting of 14% Morningstar US Market Extended Index - TR / 6% Morningstar Global Markets ex-US Index - NR / 58% Bloomberg US Universal Index - TR / 12% FTSE WGBI Non-USD Index / 10% ICE BofAML Treasury 3 Month Index - TR. The Growth Blended Benchmark - 1 (80% Equity) is a blended benchmark consisting of 56% Morningstar US Market Extended Index - TR / 24% Morningstar Global Markets ex-US Index - NR / 15% Bloomberg US Universal Index - TR / 3% FTSE WGBI Non-USD Index / 2% ICE BofAML Treasury 3 Month Index - TR. The Income & Growth Blended Benchmark - 1 (40% Equity) is a blended benchmark consisting of 28% Morningstar US Market Extended Index - TR / 12% Morningstar Global Markets ex-US Index - NR / 46% Bloomberg US Universal Index - TR / 9% FTSE WGBI Non-USD Index / 5% ICE BofAML Treasury 3 Month Index - TR.

<sup>3</sup> *The Aggressive Growth Blended Benchmark - 2 (95% Equity) is a blended benchmark consisting of 67% Russell 3000 Index - TR / 28% Morningstar Global Markets ex-US Index - NR / 3% Bloomberg US Universal Index - TR / 2% ICE BofAML Treasury 3 Month Index - TR. The Balanced Blended Benchmark - 2 (60% Equity) is a blended benchmark consisting of 42% Russell 3000 Index - TR / 18% Morningstar Global Markets ex-US Index - NR / 32% Bloomberg US Universal Index - TR / 6% FTSE WGBI Non-USD Index / 2% ICE BofAML Treasury 3 Month Index - TR. The Conservative Blended Benchmark - 2 (20% Equity) is a blended benchmark consisting of 14% Russell 3000 Index - TR / 6% Morningstar Global Markets ex-US Index - NR / 58% Bloomberg US Universal Index - TR / 12% FTSE WGBI Non-USD Index / 10% ICE BofAML Treasury 3 Month Index - TR. The Growth Blended Benchmark - 2 (80% Equity) is a blended benchmark consisting of 56% Russell 3000 Index - TR / 24% Morningstar Global Markets ex-US Index - NR / 15% Bloomberg US Universal Index - TR / 3% FTSE WGBI Non-USD Index / 2% ICE BofAML Treasury 3 Month Index - TR. The Income & Growth Blended Benchmark - 2 (40% Equity) is a blended benchmark consisting of 28% Russell 3000 Index - TR / 12% Morningstar Global Markets ex-US Index - NR / 46% Bloomberg US Universal Index - TR / 9% FTSE WGBI Non-USD Index / 5% ICE BofAML Treasury 3 Month Index - TR.*

<sup>4</sup> *What You Pay reflects the Adviser's and Sub-Adviser's decision to contractually limit expenses through April 29, 2024. Please see the prospectus for additional information.*

*One may not invest directly in an index.*

## Economic & Market Overview

US equity and fixed income markets sold off during the third quarter of 2023 as economic data and the US Federal Reserve Board do not seem to be following market participant's forecasts. At the beginning of the year, consensus forecasts called for the Federal Reserve (Fed) to finish raising rates at either the February or March meeting and cut rates in the second half of 2023. Instead, the Fed raised rates at both meetings and again in July to the current 5.25% – 5.5% range. On top of this, the Fed has communicated that they may not be finished raising rates. So how has the market reacted to this disconnect since prices tend to reflect the expectations of participants? The S&P 500 Index declined by 3.3% in the third quarter yet was up by 13.1% in the year-to-date (YTD) period. For a broader view of equity market performance, the Russell 3000 Index also declined by 3.3% in the quarter and was up by 12.4% in the YTD period. From a historical standpoint, the S&P 500 and Russell 3000 Indexes are both ahead of their 15-year average annual return of approximately 11% through the end of the 3rd quarter. With only three months left in 2023, the S&P 500 Index has only declined three of the last nine months with September representing the largest decline of 4.8%. We don't know what returns will look like in the fourth quarter but the current list that makes up the wall of worry seems to be growing longer. Regardless, the YTD US equity market performance is reflecting an above average year.

The US growth versus value gap contracted by a small margin, as represented by the Russell 3000 Growth and Value Indexes, with growth declining by 3.4% and value by 3.2% during the quarter. Looking at the same Indexes, growth has dominated value stocks by 25.5% in the YTD period. The YTD outperformance in growth has been driven by a few high quality US mega-cap stocks. US large-cap stocks outpaced small cap stocks by 2.5% during the quarter and 17.4% YTD, as represented by the Russell Top 200 and Russell 2000 Indexes.

The US dollar appreciated against a broad basket of foreign currencies during the quarter and in the YTD period which reduced the returns on international assets. The Morningstar DM exUS Index of foreign developed-market stocks declined by 3.9% in the quarter but is up 6.1% YTD. The Morningstar EM Index of emerging market stocks declined by 1.7% in the quarter but is up 3.5% in the YTD period.

Bond losses accelerated during the quarter in response to higher interest rates which pushed the 10-year US Treasury yield to a level that hasn't been seen since 2007. US aggregate bonds, as represented by the Bloomberg US Aggregate Bond Index, have not had a positive monthly return since this April. Based on this, investors continue to favor the front end of the yield curve which remained inverted throughout the quarter. US Government bonds declined more than corporate bonds during the quarter. US Long Government Bonds, as represented by the Bloomberg US Government Long Index, lost 11.8% in the quarter while the Bloomberg US Aggregate Bond Index declined by 3.2%. Short-term and high yield bonds outpaced most bond sectors during the quarter since they both reflect relatively shorter durations. Therefore, the bond indexes tend to be less sensitive to interest rate movements. The Bloomberg US Corporate 1-3 year and Bloomberg US Corporate High Yield Indexes returned 0.8% and 0.5%, respectively, in the quarter. The Bloomberg Commodity Index posted big gains in the quarter due to the large upswing in oil prices. The Bloomberg Commodity Index gained 4.7% in the quarter but still reflects a loss of 3.4% in the YTD period.

## Market Index Total Returns (period through 9/30/2023)

	July Return	Aug Return	Sept Return	3 Month Return	6 Month Return	1 Year Return	3 Year Return	5 Year Return	10 Year Return
S&P 500 TR USD	3.21	-1.59	-4.77	-3.27	13.07	21.62	10.15	9.92	11.91
Russell 3000 TR USD	3.58	-1.93	-4.76	-3.25	12.39	20.46	9.38	9.14	11.28
Russell Top 200 Growth TR USD	3.42	-0.52	-5.52	-2.80	28.49	29.95	9.18	13.65	15.79
Russell Top 200 Value TR USD	3.03	-2.21	-3.15	-2.42	2.43	16.18	11.06	6.73	8.72
Russell Mid Cap Growth TR USD	3.03	-3.30	-4.87	-5.22	9.88	17.47	2.61	6.97	9.94
Russell Mid Cap Value TR USD	4.35	-3.54	-5.09	-4.46	0.54	11.05	10.98	5.18	7.92
Russell 2000 Growth TR USD	4.68	-5.21	-6.60	-7.32	5.24	9.59	1.09	1.55	6.72
Russell 2000 Value TR USD	7.55	-4.81	-5.21	-2.96	-0.53	7.84	13.32	2.59	6.19
FTSE EPRA Nareit Developed TR USD	3.81	-3.30	-5.96	-5.59	-4.10	2.72	1.53	-0.30	2.97
Morningstar DM xUS NR USD	3.45	-3.77	-3.50	-3.93	6.10	23.25	5.35	3.12	3.88
Morningstar EM NR USD	6.14	-5.29	-2.17	-1.66	3.47	13.10	0.56	2.02	2.96
FTSE WGBI NonUSD Hdg USD	-0.29	0.10	-1.62	-1.81	1.95	0.98	-4.43	0.01	1.98
JPM EMBI Plus TR USD	1.80	-1.45	-3.74	-3.43	-0.21	8.47	-8.82	-2.98	0.56
Bloomberg US Corporate High Yield	1.38	0.28	-1.18	0.46	5.86	10.28	1.76	2.96	4.24
Bloomberg Gbl Infl Linked US TIPS	0.13	-0.89	-1.85	-2.60	-0.78	1.25	-1.98	2.12	1.74
Bloomberg US Aggregate Bond	-0.07	-0.64	-2.54	-3.23	-1.21	0.64	-5.21	0.10	1.13
Bloomberg US Govt/Credit 1-3 Year	0.42	0.35	-0.05	0.73	1.87	2.77	-0.72	1.21	1.02
Bloomberg Commodity	6.26	-0.77	-0.69	4.71	-3.44	-1.30	16.23	6.13	-0.75

Indexes shown are unmanaged and not available for direct investment. Source: Morningstar Direct<sup>SM</sup>

**Past performance is no guarantee of future results.**

## Portfolio Positioning

The Morningstar ETF Allocation portfolios were last reallocated at the end of August 2023. The portfolios continue to offer a diversified asset allocation for investors across the risk spectrum. The allocation between stocks and bonds were not adjusted as part of the reallocation during the quarter.

In the reallocation, we targeted a lower tracking error between each portfolio and its corresponding benchmark. To accomplish this, we reduced the tilt to the value style of investing which required sourcing allocations from small-cap and mid-cap and added to large-cap growth where we were underweight relative to our benchmarks. Additionally, we converted a portion of our value and core equity exposure that weights underlying constituents based on market capitalization to a methodology that weights based on fundamentals. We believe that the fundamentally weighted methodology will provide the desired diversification and exposure to relatively higher quality companies that exhibit more favorable valuations than cap-weighted style indexes. From a sector standpoint, we reduced our underweight to technology, communication services and consumer discretionary and still remain overweight the remaining sectors with the exception of health care. We adjusted our regional exposures to align with our desired scaling of international allocations across the five portfolios that make up the asset allocation series. We reduced our exposure to international developed equity in select portfolios and added to emerging market equities where we believe there may be pockets of opportunity at a regional level.

Bonds have struggled to produce positive total returns over the last three years due to the upward movement in interest rates. Over the long-term, we construct our fixed income exposure to provide diversification and control the risk profile of each portfolio. In select macro environments, economic regimes, and when the Fed takes unprecedented actions, bonds can become a leading source of volatility and drive losses in a diversified portfolio. In other words, bonds can act less like a portfolio rudder and more like an anchor on returns. For example, US long-term government bonds reflect the highest losses among the asset classes we maintain exposure to over the last three years due to rising interest rates. We have maintained minimal exposure to long-term bonds based on the heightened interest rate risk. In our last reallocation, we realigned our bond sector exposure by adding to our credit position in select portfolios. Additionally, we reallocated from Treasury Inflation-Protected Securities (TIPS) and US Treasuries to US aggregate, short-term bonds and mortgage-backed securities. Finally, we exited our position in broad-based commodities based on valuations and the heightened potential for a slowdown in demand given the current level of interest rates.

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FIV001540 2/29/2024