

Morningstar ETF Allocation Series

Commentary | December 31, 2023

Performance as of 12/31/2023

	Cumulative			Annualized						Expense Ratios	
	1 M	3 M	YTD	1 Y	3 Y	5 Y	10 Y	15 Y	SI ¹	Total Operating Expenses	What You Pay ²
Aggressive Class I (NAV)	5.53%	10.76%	17.10%	17.10%	6.54%	10.32%	7.32%	9.43%	5.58%	0.64%	0.64%
Aggressive Class II (NAV)	5.50%	10.72%	16.88%	16.88%	6.29%	10.04%	7.06%	9.14%	5.31%	0.89%	0.89%
Aggressive Growth Blended Benchmark - 1 (95% Equity) ³	5.13%	11.09%	22.02%	22.02%	6.19%	12.33%	9.05%	11.56%	7.39%		
Aggressive Growth Blended Benchmark - 2 (95% Equity) ⁴	5.12%	11.04%	21.85%	21.85%	6.22%	12.34%	9.03%	11.51%	7.32%		
95% S&P 500 / 5% Bloomberg US Aggregate Bond Index	4.51%	11.45%	25.19%	25.19%	9.34%	14.99%	11.55%	13.44%	9.17%		
Balanced Class I (NAV)	4.41%	8.86%	13.11%	13.11%	3.14%	6.95%	5.26%	7.02%	4.71%	0.63%	0.63%
Balanced Class II (NAV)	4.36%	8.75%	12.82%	12.82%	2.88%	6.68%	4.99%	6.76%	4.44%	0.88%	0.88%
Balanced Blended Benchmark - 1 (60% Equity) ³	4.67%	9.67%	15.98%	15.98%	2.48%	8.18%	6.40%	8.40%	5.95%		
Balanced Blended Benchmark - 2 (60% Equity) ⁴	4.67%	9.64%	15.87%	15.87%	2.50%	8.18%	6.39%	8.37%	5.91%		
60% S&P 500 / 38% Bloomberg US Aggregate Bond / 2% ICE BofAML Treasury 3 Month Index - TR	4.19%	9.63%	17.67%	17.67%	4.83%	10.01%	8.09%	9.57%	7.10%		
Conservative Class I (NAV)	3.33%	6.63%	8.19%	8.19%	-0.66%	2.82%	2.52%	3.46%	3.02%	0.69%	0.61%
Conservative Class II (NAV)	3.18%	6.39%	7.84%	7.84%	-0.92%	2.56%	2.25%	3.19%	2.74%	0.94%	0.86%
Conservative Blended Benchmark - 1 (20% Equity) ³	3.88%	7.58%	9.29%	9.29%	-1.28%	3.38%	3.18%	4.45%	3.84%		
Conservative Blended Benchmark - 2 (20% Equity) ⁴	3.88%	7.57%	9.25%	9.25%	-1.27%	3.38%	3.18%	4.44%	3.83%		
20% S&P 500 / 73% Bloomberg US Aggregate Bond / 7% ICE BofAML Treasury 3 Month Index - TR	3.74%	7.41%	9.46%	9.46%	-0.23%	4.17%	3.92%	4.91%	4.34%		
Growth Class I (NAV)	5.09%	9.95%	15.61%	15.61%	5.01%	8.93%	6.48%	8.53%	5.30%	0.62%	0.62%
Growth Class II (NAV)	5.03%	9.81%	15.27%	15.27%	4.73%	8.64%	6.20%	8.25%	5.03%	0.87%	0.87%
Growth Blended Benchmark - 1 (80% Equity) ³	4.94%	10.49%	19.38%	19.38%	4.56%	10.53%	7.90%	10.19%	6.78%		
Growth Blended Benchmark - 2 (80% Equity) ⁴	4.93%	10.45%	19.23%	19.23%	4.58%	10.53%	7.89%	10.16%	6.73%		
80% S&P 500 / 20% Bloomberg US Aggregate Bond Index	4.40%	10.72%	21.92%	21.92%	7.36%	12.86%	10.09%	11.82%	8.33%		
Income and Growth Class I (NAV)	3.85%	7.72%	10.99%	10.99%	1.25%	5.02%	3.94%	5.24%	3.88%	0.65%	0.62%
Income and Growth Class II (NAV)	3.82%	7.55%	10.59%	10.59%	0.98%	4.74%	3.67%	4.97%	3.61%	0.90%	0.87%
Income & Growth Blended Benchmark - 1 (40% Equity) ³	4.31%	8.68%	12.62%	12.62%	0.56%	5.80%	4.82%	6.47%	4.96%		
Income & Growth Blended Benchmark - 2 (40% Equity) ⁴	4.31%	8.66%	12.55%	12.55%	0.57%	5.80%	4.82%	6.45%	4.93%		
40% S&P 500 / 55% Bloomberg US Aggregate Bond / 5% ICE BofAML Treasury 3 Month Index - TR	3.95%	8.49%	13.52%	13.52%	2.34%	7.12%	6.02%	7.26%	5.75%		

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.

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.

¹ Fund inception date: 4/30/2007

² 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.

³ 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.

⁴ 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.

One may not invest directly in an index.

Economic & Market Overview

Broad equity indexes surged higher in December and closed 2023 with double digit gains which erased much of the steep losses from 2022. An investor that maintained exposure to equities over the last five years would have been rewarded with above long-run average returns. Yet, asset flows data from Morningstar Direct show that money market funds was the top destination for flows followed by taxable bonds in 2023. Needless to say, 2023 was defined by a high level of uncertainty surrounding the Federal Reserve's (Fed) interest rate policy, inflation and war on multiple continents. When considering the steep losses in 2022 and uncertainty defining 2023, it's understandable that many investors elected to hold short-term treasuries which returned a predictable 5% during the full year. At the same time, optimism for the future of artificial intelligence (AI) propelled select stocks such as NVIDIA, up 239%, to new highs in 2023.

The top-heavy market was driven by a few mega-cap stocks which have been labeled the Magnificent Seven. The top seven stocks in the S&P 500 Index contributed 15.3%, or 58% of the index's 26.3% return in 2023. Market breadth and participation expanded in the fourth quarter but over 70% of index constituents underperformed the index composite return in 2023. The gap begs the question of the underlying health of the real economy. FactSet shows that corporate earnings grew more than expected last year but margins are compressing due to higher input and labor costs. The high inflation and employment dislocations somewhat normalized over 2023 according to J.P. Morgan and the Bureau of Labor Statistics. As the Federal Reserve's 5.25% of rate hikes since 2022 continues to cool the US economy, many economists believe the tightening cycle is over and rates will decline in 2024.

The S&P 500 Index gained 11.7% in the fourth quarter and 26.3% in 2023, which represented the fourth double digit above average return in the last five years. For a broader view of equity market performance, the Russell 3000 Index gained 12.1% in the quarter and 26.0% in 2023. The US growth style dominated value in 2023 while mega cap stocks returned nine times more than small stocks. Broad international equity indexes lagged the US market in 2023. The US dollar depreciated against a broad basket of foreign currencies during the quarter and during 2023 which added to the returns on select international assets. The Morningstar DM ex US Index of foreign developed-market stocks gained 10.5% during the fourth quarter and 17.3% in 2023. The Morningstar EM Index of emerging market stocks gained 7.8% during the fourth quarter and 11.5% in 2023.

Bonds had a strong finish to a challenging year given the rate hikes that led to heightened volatility and negative returns in 2022 and the 2nd and 3rd quarters of 2023. Longer maturity bonds with higher duration and sensitivity to rate movements performed the best during the quarter and credit bonds outpaced government bonds. The US economy tends to be less sensitive to interest rate shifts than other developed markets. Based on this, the 2023 rate hikes are likely still working through the real economy. As that happens, investors and other factors can move the 10 year US Treasury yield based on their expectations. In April through late October of 2023, investors reacted to hawkish Fed statements and sent the 10-year yield up almost 170 basis points before Fed chairman Powell's dovish comments created hope for an end to rate hikes and a soft landing scenario which caused the yield to decline by 110 basis points by year-end. The declining rates helped most fixed income exposures move from negative returns to mid-single digit returns at year-end. As an example, the Bloomberg US Aggregate Bond Index return 6.8% in the fourth quarter and 5.5% in 2023. High yield bonds produced outsized returns in 2023, as represented by the Bloomberg US Corporate High Yield Index, and returned 7.2% in the quarter and 13.4% in 2023. Commodities didn't fare as well in 2023 as the Bloomberg Commodity Index lost 4.6% in the quarter and 7.9% in 2023.

Market Index Total Returns (period through 12/31/2023)

	Oct Return	Nov Return	Dec Return	3 Month Return	YTD Return	1 Year Return	3 Year Return	5 Year Return	10 Year Return
S&P 500 TR USD	-2.10	9.13	4.54	11.69	8.04	26.29	10.00	15.69	12.03
Russell 3000 TR USD	-2.65	9.32	5.30	12.07	8.43	25.96	8.54	15.16	11.48
Russell Top 200 Growth TR USD	-0.86	10.71	3.97	14.11	10.91	46.62	10.58	20.79	16.06
Russell Top 200 Value TR USD	-2.72	6.50	4.25	8.01	5.40	10.64	9.03	10.73	8.46
Russell Mid Cap Growth TR USD	-5.10	12.20	7.58	14.55	8.56	25.87	1.31	13.81	10.57
Russell Mid Cap Value TR USD	-4.95	9.43	7.79	12.11	7.11	12.71	8.36	11.16	8.26
Russell 2000 Growth TR USD	-7.71	9.10	11.98	12.75	4.50	18.66	-3.50	9.22	7.16
Russell 2000 Value TR USD	-5.97	9.00	12.45	15.26	11.85	14.65	7.94	10.00	6.76
FTSE EPRA Nareit Developed TR USD	-4.75	10.68	9.65	15.59	9.12	10.85	2.15	3.79	4.52
Morningstar DM xUS NR USD	-4.37	9.41	5.62	10.51	6.17	17.25	3.68	8.21	4.36
Morningstar EM NR USD	-4.20	8.13	4.04	7.77	5.98	11.51	-3.15	4.90	3.53
FTSE WGBI NonUSD Hdg USD	-0.13	2.98	3.02	5.95	4.04	8.02	-2.86	0.72	2.52
JPM EMBI Plus TR USD	-1.51	6.69	5.20	10.54	6.75	10.30	-7.43	-0.89	1.51
Bloomberg US Corporate High Yield	-1.16	4.53	3.73	7.16	7.66	13.44	1.98	5.37	4.60
Bloomberg Gbl Infl Linked US TIPS	-0.72	2.71	2.69	4.71	1.99	3.90	-1.00	3.15	2.42
Bloomberg US Aggregate Bond	-1.58	4.53	3.83	6.82	3.37	5.53	-3.31	1.10	1.81
Bloomberg US Govt/Credit 1-3 Year	0.31	1.16	1.19	2.69	3.44	4.61	0.09	1.51	1.27
Bloomberg Commodity	0.27	-2.25	-2.69	-4.63	-0.14	-7.91	10.76	7.23	-1.11

Indexes shown are unmanaged and not available for direct investment. Source: Morningstar DirectSM

Past performance is no guarantee of future results.

Portfolio Positioning

The Morningstar ETF Allocation Series 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.

Relative performance in 2023 proved to be a challenge for multi-asset strategies that maintain a diversified risk managed exposure to a global basket of stocks and bonds. US growth stocks drove performance in the fourth quarter of 2023 and the full year. Specifically, US mega-cap growth stocks outpaced the same size value stocks by 6.1% in the fourth quarter and 36% in 2023 as shown by the Russell Top 200 Growth and Value Indexes. Likewise, US stocks beat international equity by 1.9% in the fourth quarter and 10.1% in 2023 as shown by the S&P 500 and MSCI ACWI Ex USA Indexes. The portfolios in the Series maintained a meaningful allocation to both US value and international equities over the same periods. It's important to note that growth assets underperformed both value and international equities by a meaningful amount in 2022. So the wide performance results are nothing new to us and things are not different this time around. During 2023, we meaningfully added to our growth assets and trimmed both value and international equity positions which reduced tracking error to our benchmarks. Our two reallocations in 2023 contributed to relative performance. However, any diversification away from the top seven US mega-cap stocks proved fateful and detracted from relative performance results.

Bonds had a bipolar year in 2023, as expectations and rate volatility created two negative quarters sandwiched between two strong quarters. Bond valuations looked relatively attractive to us throughout 2023 after substantial interest rate hikes caused bonds to reprice and generate large price declines in 2022 and much of 2023. Many bond exposures finished 2023 offering relatively attractive yields which we see as an opportunity since much of the rate hikes are likely in the rearview mirror. We are looking for bond exposures to return to a longer-term role as a portfolio diversifier and stabilizer in the event of inevitable equity drawdowns. Early in 2023, we shortened our duration and moved towards higher quality credit exposures in portfolios with higher fixed income allocations. In August of 2023, we increased our duration and credit exposure by adding to MBS, emerging bonds and high yield bonds. Given the fourth quarter bond rally, our short-term bond exposure detracted the most from relative performance as higher duration bonds and credit outperformed. We benefitted by exiting our commodity position in August as broad commodity prices continued to slide through year-end.

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