

Seeking the Potential of High-Dividend Yield and Dividend Growth

Strategy overview

Actively managed portfolio aiming to achieve a dividend yield that exceeds the average dividend yield of the companies included in the Russell 1000® Value index.

You should consider the investment objectives, risks, and charges and expenses of the variable product and its underlying fund options; or mutual funds offered through a retirement plan, carefully before investing. The prospectuses / prospectus summaries / information booklets contain this and other information, which can be obtained by contacting your local representative or by calling (800) 992-0180. Please read the information carefully before investing.

Key takeaways

- The market finished the year on a high note, capping a strong year for equities. Inflation has begun to subside, and unemployment remains under 4% for the 22nd consecutive week. The underlying economy appears to be stronger than most anticipated.
- For the quarter ended December 31, 2023, the Strategy outperformed the Russell 1000 Value Index (the Index) on a net asset value (NAV) basis, due to strong stock selection. The information technology, communication services and health care sectors contributed the most to performance. Conversely, the selection in materials and industrials detracted from performance.
- Consumer confidence continues to increase, and there is cautious optimism that we can achieve the desired soft-landing scenario and avoid a recession going into the new year. Markets are already anticipating several rate cuts in 2024 which should be good news for equities.

Portfolio review

U.S. equity markets ended the quarter on a high note, bolstered by economic resilience, waning inflation and a pause in the U.S. Federal Reserve's interest rate hiking cycle. The S&P 500 Index rose by 11.69% and the Nasdaq Composite Index advanced by 13.56%. Information technology stocks led while utilities lagged. Growth stocks outperformed value stocks during the quarter, and small caps beat large caps.

The U.S. bond market staged a comeback during the quarter. The Bloomberg U.S. Aggregate Bond Index gained 6.82% on the unexpected strength of the economy. The 10-year U.S. Treasury yield moved from 4.69% at the beginning of the quarter to 3.88% by quarter-end as inflation eased and expectations of interest rate cuts in 2024 grew.

For the quarter ended December 31, 2023, the Strategy outperformed the Index due to favorable stock selection. The information technology, communication services and health care sectors contributed the most to performance.

At the individual stock level, not owning a position in Exxon Mobil Corp., a non-benchmark position in Pinterest, Inc. and an overweight position in Bank of New York Mellon Corp. added the most to performance.

Not owning a position in Exxon Mobil Corp. (XOM) contributed to performance. The company reported mixed results with weaker-than-expected free-cash-flow (FCF), largely due to reduced chemical margins.

A non-benchmark position in Pinterest, Inc. (PINS) contributed to performance. The company reported a strong quarter with significant revenue growth YoY. They also reported strong guidance as further acceleration is expected.

An overweight position in Bank of New York Mellon Corp. (BK) contributed to performance. The company reported a strong quarter with better-than-expected deposit trends. They also announced positive guidance with strong YoY growth.

An overweight position in Valero Energy Corp., a non-benchmark position in BP plc., and not owning Intel Corp. were the biggest individual detractors.

An overweight position in Valero Energy Corp. (VLO) detracted from performance driven by a decline in the refining margins between crude oil and products, gasoline, and diesel fuel.

A non-benchmark position in BP plc. (BP) detracted from performance. The company reported disappointing earnings, primarily due to lower oil and gas prices and weak gas and marketing trading results.

Not owning a position in Intel Corp. (INTC) detracted from performance. The company reported a strong quarter on a recovery in the personal computer (PC) supply chain. Management also provided positive guidance above the consensus.

Current strategy and outlook

In our view, the side effects of the pandemic shock have mostly subsided, and inflation is the final piece of the puzzle. We view the recovery not as a classic business cycle, but as an economy trying to normalize following a natural disaster. First came the government-mandated lockdowns and the bust. Then came the re-openings and the effects of mega-policy stimulus. Lastly came the 180-degree reversal in monetary policy. Inflation peaked in June 2022 at 9.1%, which means that most of the disinflation we have seen since then has had little to do with Fed policy. We believe that disinflation could continue (and may intensify) over the next 18 months. Corporate earnings are accelerating as the U.S. consumer remains healthy and corporate fundamental factors are sound.

Holdings detail

Companies mentioned in this report – percentage of Strategy investments, as of 12/31/23: Apollo Global Management Inc. 1.68%, Valero Energy Corp. 1.79%, BP p.l.c. 1.52%, NextEra Energy, Inc. 2.34%, Exxon Mobil Corp. 0% and Bank of America Corp. 3.77%, 0% indicates that the security is no longer in the portfolio. Portfolio holdings are subject to daily change.

The **Russell 1000 Value index** is an unmanaged index that measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecast growth values. The index does not reflect fees, brokerage commissions, taxes or other expenses of investing. **Investors cannot directly invest in an index.**

Investment Risks: All investing involves risks of fluctuating prices and the uncertainties of rates of return and yield inherent in investing. An investment in securities of **larger companies** carries with it the risk that the company (and its earnings) may grow more slowly than the economy as a whole or not at all. **Value investing** securities that appear to be undervalued may never appreciate to the extent expected and are generally more sensitive to changing economic conditions. **Foreign investing** poses special risks including currency fluctuation, economic and political risks not found in investments that are solely domestic. The risks of emerging markets securities may be intensified. Because the Fund may invest in **other investment companies**, you may pay a proportionate share of the expenses of that other investment company, in addition to the expenses of the Fund. Other risks of the Fund include but are not limited to: company, convertible securities; dividend risks; interest rate, investment model, market trends; inability to sell securities; real estate companies and real estate investment trusts ("REITs") and securities lending risks. **Investors should consult the Fund's Prospectus and Statement of Additional Information for a more detailed discussion of the Fund's risks.**

The strategy employs a quantitative model to execute the strategy. Data imprecision, software or other technology malfunctions, programming inaccuracies and similar circumstances may impair the performance of these systems, which may negatively affect performance. Furthermore, there can be no assurance that the quantitative models used in managing the strategy will perform as anticipated or enable the strategy to achieve its objective.

The strategy is available as a mutual fund or variable portfolio. The mutual fund may be available to you as part of your employer sponsored retirement plan. There may be additional plan level fees resulting in personal performance that varies from stated performance. Please call your benefits office for more information.

Variable annuities and group annuities are long-term investments designed for retirement purposes. If withdrawals are taken prior to age 59½, an IRS 10% premature distribution penalty tax may apply. Money taken from the annuity will be taxed as ordinary income in the year the money is distributed. An annuity does not provide any additional tax deferral benefit, as tax deferral is provided by the plan. Annuities may be subject to additional fees and expenses to which other tax-qualified funding vehicles may not be subject. However, an annuity does provide other features and benefits, such as lifetime income payments and death benefits, which may be valuable to you.

Variable investments, of any kind, are not guaranteed and are subject to investment risk including the possible loss of principal. The investment return and principal value of the security will fluctuate so that when redeemed, it may be worth more or less than the original investment. In addition, there is no guarantee that any variable investment option will meet its stated objective. All guarantees are based on the financial strength and claims paying ability of the issuing insurance company, who is solely responsible for all obligations under its policies.

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