SECURITY BENEFIT INVESTMENT TEAM

Investment Perspective

QUARTER 1 — 2022 REVIEW

Economic Focus

The U.S. stock market ended 1Q 2022 with its first negative quarter of performance since COVID-19 hit in 2020. Inflation, the Federal Reserve's first rate increase since 2018, and the war in Ukraine were contributing factors, on top of ongoing supply chain issues. The economy exhibited restrained growth despite these conditions.

Russia's invasion of Ukraine has elevated geopolitical risk and oil and other commodities have shot up as a result. The surge in global inflation is pulling forward global central banks' hiking cycles and balance sheet shrinkage putting pressure on stocks. Europe is in a house of pain: the impact of the price spike in all commodities, given their large import status, is driving a large depreciation in their currency.

U.S. economic activity expanded at a "modest to moderate" pace since mid-January, according to the latest Beige Book (February 18, 2022) report. The Fed noted that the last onslaught of COVID-19 cases temporarily disrupted business activity, along with severe winter weather, and this resulted in "generally weaker" consumer activity than in the prior report. Auto sales were mixed, but manufacturing activity continued to grow at a modest pace. Supply chain issues and low inventories continued to restrain growth, particularly in the construction sector. The overall economic outlook over the next six months remained "stable and generally optimistic," with a small degree of uncertainty sneaking in.

Prices charged to customers increased at a robust pace due to rising input costs including transportation, which was particularly significant, labor and materials. The report noted expectations of additional price increases over the next several months as firms continue to pass on input cost increases. This continues to put pressure on real returns, as yields have been near zero and inflation is accelerating at a faster pace.

And while the services sector has cooled over the past six months, with COVID-19 fading, we expect business activity to pick up which could stoke inflation fires even more. We believe U.S. consumer spending is likely to remain very strong given the strength in recovery of the labor market.

The 10-year U.S. Treasury Bond closed the quarter at 2.32%, up significantly from its 12/31/2021 close of 1.51%. The 2-year U.S. Treasury Bond closed at 2.28% for the period, placing the yield curve on the precipice of an inversion. Historically, yield curve inversions in the U.S. have been a reliable indicator of recession risk but today that signal is distorted by the Fed's massive balance sheet and low rates globally.

As we noted last quarter, despite these increases, rates are still expected to be historically low and likely supportive of the economy and stock markets to a degree. We maintain our view that inflation will continue to be above the Fed's long-term 2% target in 2022 driven by persistent inflation.

Another concern will be how quickly the Fed sells off its massive bond holdings, or "quantitative tightening," and how that will impact the markets. The Fed could begin reducing its balance sheet in May. The Fed's holdings have reached $8.5 trillion or 35% of GDP—shrinking this will add pressure to the credit markets by reducing demand for assets the Fed holds and increasing rates.

Markets Snapshot

U.S. stocks as represented by the S&P 500® posted a -4.95% return for the quarter, with mid cap and small cap stocks trailing behind (S&P MidCap 400® -5.22%, S&P SmallCap 600® -5.93%). Energy stocks led the way, followed by Utilities, as Brent crude jumped 38%. The negative return for the quarter masks the strong come-back for stocks in March. Overall, conditions remain challenging as growth has slowed, rates are rising, and inflation is high. The reduction in global fiscal and monetary stimulus will also present a large headwind.

From a style standpoint, value took over market leadership for stock performance by a wide margin. The S&P 500® Value Index, as measured by a combination of book value, earnings, and sales to price, was down -0.16% for the quarter. In contrast, the S&P 500® Growth Index, as measured by a combination of sales growth, PEs, and momentum, lost -8.59%. The declines in growth stocks were due in part to their existing high valuations, plus the move in interest rates that limited their ability to borrow.

Analysts currently believe companies in the S&P 500® will report earnings growth of 4.8% in the first quarter, which would be the lowest rate since late 2020, according to data compiled by FactSet. Although earnings are expected to grow this year, the market is facing a variety of challenges, and we expect more volatility ahead.

Bonds faced a treacherous environment as inflation fears replaced COVID-19. As rates rose, and prices declined, most bond sectors ended in the red for the quarter. The Bloomberg Aggregate Bond Index declined 6%, its worst performance since the 2008 financial crisis. One area of relative calm was the bank loan segment, where the S&P/LSTA U.S. Leveraged Loan 100 Index (which tracks the 100 largest senior loan facilities) lost only -0.18%. The expected shift in the Fed's monetary policy created fears that the FOMC could potentially cause a recession down the line. The Fed has said they will continue increasing the Federal Funds Rate throughout 2022 and into 2023 in an effort to tighten overall financial conditions and inflation. This could include more aggressive moves, such as larger half-point hikes at one or more of their upcoming sessions

Credit-sensitive assets lost ground as well—high yield corporates (Morningstar U.S. High Yield Bond Index -4.53%), mortgage-backed securities (Morningstar U.S. Mortgage-Backed Securities Index -5.03%), and even TIPS (Morningstar U.S. TIPS Index -2.44%) were all impacted by rising rates along with the rest of the bond market.

Transition to SOFR Complete

The financial industry's transition from LIBOR to SOFR was completed in the first quarter, and by most measures was relatively smooth. The U.S. CLO market had a series of successful new issues using the SOFR reference rate with managers adjusting well to the new securities with SOFR-linked liabilities. This is a positive result, especially given that CLO issuance is coming off a record year in 2021. Pricing has been in-line with expectations, though underlying collateral is still adjusting with SOFR-based loans limited.

While the SOFR transition went well, the CLO market is facing some uncertainty. Monthly issuance dipped ahead of the transition, picked up strongly in February, but closed the quarter somewhat muted. Macro-economic conditions have caused some issuers to hold back waiting for conditions to improve.

Index Performance

The quarter was quite volatile, with a significant downturn in January and February, and subsequent rebound in March. Value and low volatility bounced back the most. Pure Value was the best-performing S&P 500® factor index in 1Q, followed by the High Dividend and Low Volatility High Dividend factors. Pure Growth finished as the worst-performing factor over the quarter, despite a solid 2.4% return in March.

The S&P 500® Equal Weight outperformed the cap-weighted index for the quarter (but not March) as the largest-cap stocks within the S&P 500® underperformed the index. Since most factor indices have a lower average capitalization than that of the S&P 500®, this indicates why most of them outperformed in the first quarter but lagged during the run-up in March.

The S&P 500® Factor Rotator (TR), designed by Security Benefit, returned -4.31% for 1Q, outperforming the S&P 500 (TR) by 0.3%, while the 7% Volatility Control (VC) Index version returned -4.38% for 1Q. The VC allocated 28% to the High Dividend factor, 9% to the Low Volatility Factor and 63% to 2-year U.S. Treasuries as of March 31st, 2022. The negative performance was driven by the broader stock market sell-off and rising interest rates which led to the negative return from U.S. Treasuries. In comparison, the Morningstar Wide Moat Focus Barclays VC 7% Index returned -5.53% and the S&P MARC 5 Index returned -2.49% for 1Q. Both negative performances were also driven by the negative stock return and rising interest rates. The UBS Market Pioneer Volatility Controlled Index returned +0.42% for 1Q, primarily driven by the strong performance of its commodity allocation.

Investment Overview

We continue to benefit from the lift in over-all yields due to our strong liquidity position, with a weighted average life in our fixed income allocation of roughly 4 ½ years. Since year-end 2021, our weighted average yield on the fixed income portion of our portfolio has held steady, excluding commercial mortgage loans. Since year-end 2021, we reduced the weighted average life of the portfolio by 0.3 years.

Thematically, we had been set up for this move higher in the yield curve for some time and remain positioned to continue executing on our long-term strategy of delivering compelling performance, consistent loan underwriting and strong governance. Supported by what we continue to believe will be a strengthening U.S. economic recovery, we see further extension of the credit cycle and low defaults.

About Our Investment Approach

While the broader U.S. Life Insurance industry continues to try to pursue private asset strategies, we employ the same prudent approach that we've been executing for over a decade. Our investment strategy entails focusing on less crowded segments of the market, which we believe offer higher returns while being appropriately balanced, diversified, liquid and risk managed at origination. Structured credit assets, which include collateralized loan obligations ("CLOs") and asset-backed securities ("ABS"), produce a higher expected return than other securities while, in our view, still providing high credit quality and diversification, which attributes are strengthened by the amortization features present in many such investments. This differentiated approach in the U.S. Life Insurance industry has delivered market leading returns which bring, maintain, and build policyholder loyalty and growing investment operating earnings. We believe most of the broadly syndicated investment grade fixed income market just doesn't work for the U.S. Life Insurance Industry business model. Issuing retail annuity contracts, taking deposits, and investing the money to maturity at 2% leads to a predictable, certain outcome – negative profitability – which isn't in the best interest of any long-term stakeholders, including consumers, appointed producers, distribution partners, employees, and shareholders.

About Security Benefit

Security Benefit Corporation ("Security Benefit"), through its subsidiary Security Benefit Life Insurance Company (SBL), a Kansas-based insurance company that has been in business for 129 years, is a leader in the U.S. retirement market. Security Benefit together with its affiliates offers products in a full range of retirement markets and wealth segments for employers and individuals and held $46.9 billion[1] in assets under management as of December 31, 2021. Security Benefit, an Eldridge business, is one of the fastest growing U.S. retirement companies and continues its mission of helping Americans *To and Through Retirement®*. Learn more at ***SecurityBenefit.com*** and follow us on ***LinkedIn***, ***Facebook***, or ***Twitter***.

[1] Excludes $4.9bn of funds withheld assets (includes $3.2bn of in-force business as of January 1, 2021and $1.7bn of business written in 2021) and $0.3bn of assets held pursuant to the overcollateralization requirements under the reinsurance transaction with SkyRidgeRe Limited.

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The S&P 500® Equal Weight Index (EWI) is the equal-weight version of the widely-used S&P 500. The index includes the same constituents as the capitalization weighted S&P 500, but each company in the S&P 500 EWI is allocated a fixed weight – or 0.2% of the index total at each quarterly rebalance.

The S&P MARC 5% (Multi-Asset Risk Control) Index seeks to provide multi-asset diversification within a simple risk weighting framework, tracking three underlying component indices that represent three asset classes: equities, commodities, and fixed income.

The UBS Market Pioneers Index (the "Index") is a risk-controlled composite index developed by UBS AG based in part on the non-risk-controlled NYSE® Zebra Edge™ U.S. Equity Index (the "NYSE Zebra Edge U.S. Equity Index") and the non-risk-controlled Jim Rogers Global Consumer Commodities Index™ (the "Jim Rogers Index"). UBS owns or otherwise has the rights to license all intellectual property and other property rights to the Index, which is being used by Security Benefit Life Insurance Company ("SBL") under license from UBS AG.

The Morningstar® Wide Moat Focus Index℠ measures the performance of a portfolio of the most undervalued U.S. stocks with a "wide" Economic Moat rating as determined by Morningstar's Equity Research team. A treasury component consists of an equally weighted portfolio of 2-year, 5-year, 10-year and 30-year Barclays US Treasury Futures indices. Neither Barclays Bank PLC (BB PLC) nor any of its affiliates (collectively Barclays) is the issuer or producer of the Security Benefit Annuity (the Product) and Barclays has no responsibilities, obligations or duties to purchasers in the Product. The Morningstar Wide Moat Focus Barclays VC 7% Index ER (the Index), together with any Barclays indices that are components of the Index, is a trademark owned by Barclays and, together with any component indices and index data, is licensed for use by Security Benefit Life Insurance Company (Security Benefit) as the issuer or producer of the Product (the Issuer). The Index is created and maintained solely by Barclays using a combination of U.S. Treasury Futures holdings selected by Barclays and the Morningstar Wide Moat Focus Index℠ (Wide Moat Focus Index) in its entirety. Morningstar, Inc. (Morningstar) has no relationship to Barclays, other than to license Barclays the right to use the Wide Moat Focus Index in the Index. Under this licensing arrangement, Barclays must include the Wide Moat Focus Index in its entirety in the Index. Morningstar has no responsibility for the compilation or maintenance of the Index or its performance, and no liability to anyone for its use. The Morningstar name and logo are registered marks of Morningstar. Morningstar does not guarantee the accuracy, completeness or timeliness of the Wide Moat Focus Index or any data included in it and expressly disclaims any warranties associated with it.

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Morningstar US Mortgage-Backed Securities Index measures the performance of fixed-rate Mortgage-Backed Securities issued by GNMA, FNMA, and FHLMC. It is market-capitalization weighted. This Index does not incorporate Environmental, Social, or Governance (ESG) criteria.

Morningstar US TIPS Index measures the performance of all US Treasury Inflation-Protected Securities (TIPS) that have a maturity greater than one year. It is market-capitalization weighted. This Index does not incorporate Environmental, Social, or Governance (ESG) criteria.