Investment Perspective

QUARTER 2 — 2022 REVIEW

Economic Focus

The U.S. stock market's widespread selloff continued in 2Q 2022, as ongoing Fed rate hikes pounded most sectors.

U.S. economic activity expanded, with all 12 Federal Reserve Districts exhibiting growth with the majority at a "slight or modest" pace, according to the most recent Beige Book (June 1, 2022) report. Growth in manufacturing continued, while there was some softening in retail as consumers faced higher prices, including in residential real estate with high prices (including energy and food) and rising interest rates. Labor market difficulties and supply chain disruptions remained challenges, along with strong or robust price increases and fuel surcharges. Some customer pushback was evident, causing smaller volume purchases or substitution of less expensive brands.

Employment rose modestly, and the labor market remained tight with strong to moderate wage growth, though tightness began to ease on the coasts. However, the report noted that worker shortages continued to force some firms in some industries to operate below capacity. Jobless claims, one of the early indicators of labor market weakness, remained at historically low levels.

In the Fed's Economic Well-Being of Households survey for 2021 (released May 2022), 78% of adults surveyed indicated they were "either doing okay or living comfortably financially," the highest level since the survey began in 2013. It remains to be seen how the effects of the bear market and possible recession will impact financial well-being.

Overall, rising interest rates, general inflation, the Russian invasion of Ukraine, disruptions from COVID-19 cases (especially in the Northeast), profits, and the risk of recession were the primary concerns in the economy. However, expectations of future growth have diminished, and some concern over a possible recession was evident.

We'll look for a faster slowing of the economy than the Fed expects which could be a trigger for a recession.

The Bureau of Labor Statistics reported in May that gross domestic product unexpectedly shrank in the first quarter, its worst performance since the beginning of the pandemic. Fed Chairman Powell noted that the focus is on getting inflation closer to the 2% target and increasing employment but acknowledged there could be some negative impacts on the economy along the way and that a soft landing (when interest rates rise to curb inflation without pushing the economy into a recession) is not assured.

The 10-year U.S. Treasury Bond yield closed the quarter at 2.98%, up significantly from its 1Q close of 2.32% and 12/31/2021 close of 1.51%. The 2-year U.S. Treasury Bond yield closed at 2.92%, also up significantly from its 1Q close of 2.28%. The yield curve remains just short of an inversion. As noted last quarter, 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 still historically low rates globally. We maintain our view that inflation will continue to be above the Fed's long-term 2% target in 2022 driven by persistent inflation.

In June, the Federal Reserve began its quantitative tightening, seeking to reduce its balance sheet by $45 billion per month and expects to accelerate this to $90 billion per month, allowing its nearly $9-trillion balance sheet to shrink. This will add pressure to the credit markets by reducing demand for assets the Fed holds and increasing rates. Equities will be impacted as well. Stocks rallied as the Fed expanded its balance sheet (quantitative easing) in 2020 and 2021 during COVID but have dropped in 2022 as the Fed has reversed course with its tightening measures as inflation surged.

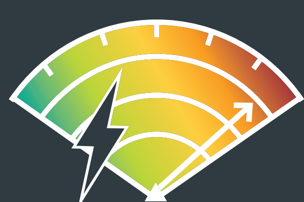
Markets Snapshot

U.S. stocks as represented by the S&P 500® posted a loss of -16.10% for the second quarter, with mid cap and small cap stocks slightly ahead (S&P MidCap 400® -15.42%, S&P SmallCap 600® -14.11%). Consumer Staples, Utilities and Energy stocks dropped the least. Energy stocks, on the strength of oil, were the only sector with a positive return for the year, up 31.84%.

U.S. stocks experienced the lowest first-half performance since 1970, as the S&P 500® reached bear market territory, down -20%. International equities were in similar shape. Dividend, value, and low volatility strategies outperformed, given their defensive nature.

From a style standpoint, value was down significantly less than the overall market and growth style stocks. The S&P 500® Value Index, as measured by a combination of book value, earnings, and sales to price, was down -11.27% for the quarter. The growth style was firmly in bear market territory, with the S&P 500® Growth Index, as measured by a combination of sales growth, PEs, and momentum, down -27.62%. The decline in growth stocks was unusual from a historical standpoint. S&P noted "value's current raw outperformance places it in the 97th percentile of all six-month intervals; its only comparable advantage occurred during the deflation of the technology bubble nearly 20 years ago."

VIX Rating
as of 06/30/2022



28.71

Provided as a courtesy
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Analysts currently believe companies in the S&P 500® will report earnings growth of 4.3% in the second 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 more volatility ahead (the VIX, or "fear index," stood at 28.71 at the end of the quarter, generally indicating more volatility linked to increased market uncertainty).

In the cryptocurrency market, Bitcoin fell 58.6%, the second-worst performance in its history, due to the same challenges as other risk assets. Bitcoin, the largest cryptocurrency by asset size, has fallen 74.6% since its all-time high according to NYDIG Research. NYDIG noted that "the bear market has exposed weaknesses in counterparties across the ecosystem, including centralized lenders and funds as well as decentralized protocols themselves."

As for bonds, investors faced the worst bear market in the last 30 years, and one that has moved swiftly. The same two factors that are impacting stocks are at work in bonds, the Fed and inflation. How effective the Fed is will determine whether the worst is over. Until then, the bond market will likely remain volatile.

Bond investors have not experienced volatility like this since 1994, when the Fed hiked rates in February and went on to raise rates six more times, including three half-point increases and one 0.75% increase. As rates rose, and prices declined, most bond sectors ended in the red for the quarter. The Morningstar U.S. Core Bond Index declined 4.50% for the quarter and is down 10.23% for 2022.

The leveraged loan segment struggled with the S&P/LSTA U.S. Leveraged Loan 100 Index (which tracks the 100 largest senior loan facilities) lost -5.30% for the quarter and is down -5.48% for the year. Credit-sensitive assets continued to lose ground as well—high yield corporates (Morningstar U.S. High Yield Bond Index -9.90%), mortgage-backed securities (Morningstar U.S. Mortgage-Backed Securities Index -3.96%), and Treasury Inflation-Protected Securities (Morningstar U.S. TIPS Index -6.25%) were all impacted by rising rates along with the rest of the bond market.

CLO Market

The Secured Overnight Financing Rate (SOFR) has become the primary benchmark for floating- and variable-rate debt, including CLOs, and currently stands at 1.50% as of June 30, 2022 (based on $1.0 trillion of repo transactions). Gross SOFR issuance of floaters now outpaces LIBOR. SOFR has replaced the U.S. dollar London Interbank Rate (LIBOR) in future financial contracts. SOFR was selected by the Alternative Reference Rates Committee (ARRC) chaired by the New York Federal Reserve in 2017. SOFR is now the average rate at which institutions can borrow U.S. dollars overnight while posting U.S. Treasury bonds as collateral.

Offering higher relative yields versus corporate bonds, plus protection against rising rates, the $1 trillion CLO market has been a viable alternative to traditional bond segments in the currently volatile, inflation-ridden economic environment. The JPM CLOIE Proprietary Blend Index—30% A, 60% BBB, and 10% BB—stands at -5.70% for 2022, well ahead of the Bloomberg U.S. Aggregate Bond Index at -10.35%.

CLO spreads have generally been wider than those of other types of debt, mostly due to their risk protection that stems from their structural nature. CLOs are a type of structured credit made up of first-lien senior secured bank loans. They must undergo coverage testing to help ensure their cash flows meet their obligations. CLOs are floating rate instruments that reset each quarter, making them less sensitive to changes in interest rates and can act as a hedge in a rising rate environment like we are experiencing.

Index Performance

Low Volatility High Dividend has been the best-performing S&P 500® factor index so far in 2022, losing just 0.60% YTD, followed by High Dividend which was down -2.7% through June. Pure Growth finished as the worst-performing factor YTD, dropping -29.70. As noted, the S&P 500 entered "official" bear market territory in June, finishing the month down -8.3%, and bringing its total return for the first six months of 2022 to a dismal -20.0%. All factors were down YTD. Surprisingly, for the first six months of the year, most factors outperformed the S&P 500 due to the relatively good performance of smaller stocks and the small-cap tilt of most factors. The very poor performance of Growth, after a decade of dominance over Value, also played a part.

Security Benefit became a pioneer by bringing to market a broad range of underlying index options—across asset types—in our fixed index annuity product line up. We continually seek innovative index strategies that are driven by historically proven academic research while pushing technology to achieve better hedging efficiency. With the success of single-equity factor indices in the fixed index annuity (FIA) space, we considered how we could create a product based on an index designed to track historically proven factors. The S&P 500© Factor Rotator Daily RC2 7% Index fit right into our approach. It delivers broad diversification from multiple equity factor strategies (momentum, value, high dividend, low volatility, and quality) that tend to exhibit outperformance versus the S&P 500 in different time periods. Its design allows for a simple and systematic approach to factor diversification, volatility exposure, and dynamic rebalancing over time.

The S&P 500® Factor Rotator (TR) returned -10.43% for 2Q, nearly 600 basis points ahead of the S&P 500 (TR). It also sits approximately 600 basis points ahead for the year, down 14.29% versus the S&P 500 at -20%. The 7% Volatility Control (VC) Index version lost -4.36% for the second quarter and stands at -8.52% YTD. The VC allocated 19% to the High Dividend factor, 6% to Value factor and 75% to 2-year U.S. Treasuries as of June 30th, 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 ER returned -6.45% for 2Q and is down -11.62% YTD. The negative performance was mainly due to growth style exposure from heavy weighting in tech stocks and Healthcare. The S&P MARC 5 Index returned -5.23% for 2Q and is down -7.58% YTD, mainly on the strength of its commodity exposure. The UBS Market Pioneers Index returned -2.02% for 2Q and is down -1.61% YTD, with commodity allocation reducing the drawdown.

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 3.77 years. Since year-end 2021, our weighted average yield on the fixed income portion of our portfolio has held steady, excluding commercial mortgage loans, and we reduced the weighted average life of the portfolio by 0.4 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.

Security Benefit Life Insurance Company issues annuities in all states except New York.

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 130 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 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, 2021 and $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 High Yield Bond Index measures the performance of USD-denominated high-yield corporate debt. It is market-capitalization weighted. This Index does not incorporate Environmental, Social, or Governance (ESG) criteria.

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.

The Cboe Volatility Index (VIX) measures 30-day expected volatility of the U.S. stock market, based on S&P 500® Index (SPX℠) call and put options.