RiverSource Insurance

# Portfolio Navigator funds

## Quarterly performance and commentary

June 30, 2017

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# The Portfolio Navigator funds

## Performance

| | Quarter ending 6/30/17 | | | | | |
|---|---|---|---|---|---|---|
| | 3 month | YTD | 1 year | 3 year | 5 year | Since Inception* |
| **VP – Aggressive Portfolio** | | | | | | |
| **VP – Aggressive Portfolio (Class 2)[1]** | 3.88% | 9.18% | 14.69% | 4.92% | 9.36% | 8.88% |
| **With Maximum Fees[2]** | -0.27% | 4.82% | 10.10% | 3.50% | 8.47% | 8.26% |
| **Aggressive Portfolio Benchmark[3]** | 3.44% | 8.73% | 15.00% | 5.96% | 10.74% | – |
| **VP – Moderately Aggressive Portfolio** | | | | | | |
| **VP – Moderately Aggressive Portfolio (Class 2)[1]** | 3.52% | 7.98% | 11.66% | 4.34% | 7.90% | 7.77% |
| **With Maximum Fees[2]** | -0.62% | 3.66% | 7.19% | 2.93% | 7.02% | 7.15% |
| **Moderately Aggressive Portfolio Benchmark[3]** | 3.05% | 7.48% | 11.98% | 5.40% | 9.17% | – |
| **VP – Moderate Portfolio** | | | | | | |
| **VP – Moderate Portfolio (Class 2)[1]** | 3.11% | 6.78% | 9.05% | 3.81% | 6.52% | 6.73% |
| **With Maximum Fees[2]** | -1.01% | 2.51% | 4.69% | 2.41% | 5.66% | 6.12% |
| **Moderate Portfolio Benchmark[3]** | 2.69% | 6.28% | 9.05% | 4.74% | 7.55% | – |
| **VP – Moderately Conservative Portfolio** | | | | | | |
| **VP – Moderately Conservative Portfolio (Class 2)[1]** | 2.45% | 5.18% | 6.02% | 3.26% | 5.03% | 5.46% |
| **With Maximum Fees[2]** | -1.64% | 0.98% | 1.78% | 1.86% | 4.18% | 4.86% |
| **Moderately Conservative Portfolio Benchmark[3]** | 2.33% | 5.09% | 6.17% | 4.05% | 5.92% | – |
| **VP – Conservative Portfolio** | | | | | | |
| **VP – Conservative Portfolio (Class 2)[1]** | 2.05% | 3.94% | 3.46% | 2.72% | 3.64% | 4.34% |
| **With Maximum Fees[2]** | -2.03% | -0.22% | -0.68% | 1.33% | 2.79% | 3.74% |
| **Conservative Portfolio Benchmark[3]** | 1.94% | 3.86% | 3.35% | 3.42% | 4.35% | – |

*Inception date - May 7, 2010

**Performance data shown represents past performance and is not a guarantee of future results. The investment return and principal value of an investment will fluctuate so that shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data shown. Please call 1-800-333-3437 for performance data current to the most recent month-end.**

[1] Reflects fund fees and expenses; does not reflect charges or expenses imposed by the insurance company on subaccounts or contracts. See Annual Fund Operating Expenses in Performance Disclosures section.

[2] Maximum Fees, in addition to Fund Fees, reflects a deduction of a 4% premium expense charge. This line is intended to demonstrate the effect that fees and expenses could have on performance, and is not intended to reflect actual fees and charges incurred by an investor in any particular variable insurance product nor does it reflect the additional fees associated with cost of insurance charges or optional insurance riders.

[3] Composite indices are constructed to correspond with the broad asset class percentages in the current Portfolio Navigator funds of funds, using the Russell 3000 Market Index (for equities), Morgan Stanley Capital International All Country World Index ex-U.S. (for international equities), Bloomberg Barclays Capital U.S. Aggregate Bond Index (for bonds), and Citigroup 3-month U.S. Treasury Bill Index (for treasuries).

## Economic and Capital Markets Review – 2Q 2017

Stocks outperformed bonds during the quarter with the Russell 3000 Index beating the Bloomberg Barclays U.S. Aggregate Bond Index by a little over 1.5% (157 basis points) in total return. Stocks have outperformed bonds in every month of 2017 so far, although the differences have been narrower in magnitude since March. Growth-oriented equities outperformed value-oriented strategies for the quarter in full. In particular, shares of companies that exhibited strong sales growth and long-term sales growth outperformed.

Emerging Markets was one of the top performing regions in the second quarter, gaining 6.3% as reflected in the total return of the MSCI Emerging Market Index. U.S. equity markets underperformed, on average, versus other developed market regions though the U.S. did still post a strong return of 3.0% as measured by the Russell 3000 Index. A weak U.S. dollar (one of the weakest asset class returns for quarter) helped international equities enjoy noticeable outperformance in dollar terms versus U.S. equities. Japan was one of the strongest developed market regions in the quarter, although unlike recent quarters, Japan's strength was not due to currency swings. In U.S. dollar terms, the MSCI Japan Index was up 5.2% in the quarter. Commodities struggled during the quarter as the Bloomberg Commodity Index slumped -3.0% in the second quarter. The U.S. dollar bears close observation for the period ahead, especially if inflation trends pick-up during the second half of the year. Should inflation rise, this could put renewed pressure on the dollar and that dynamic would have implications for numerous investments.

The Bloomberg Barclays US Aggregate Bond Index posted a return of 1.5% during the second quarter. Leading the way in terms of strong returns for fixed income investors, was the long bond for treasuries. The Bloomberg Barclays Long Term U.S. Treasury Index was up 4.0% during the second quarter. Other areas of the bond market that posted healthy returns in excess of 2.0% were high yield corporate bonds, investment grade corporate bonds, and emerging market bonds.

From an economic perspective, we remain centered around a base case scenario that sees U.S. growth in a range of 2.0% to 2.5% for 2017. Against this backdrop of economic growth and with inflation hovering around 2%, we believe the Federal Reserve will be prompted to continue to raise rates.

## Portfolio Navigator Funds – Performance Drivers in 2Q 2017

The funds all posted gains during the quarter with the more aggressively positioned portfolios performing best among the series. All five Portfolio Navigator series funds outperformed their benchmarks in the 2nd quarter (relative performance). During the quarter, the VP Conservative Portfolio returned 2.05%, the VP Moderately Conservative Portfolio returned 2.45%, the VP Moderate Portfolio returned 3.11%, the VP Moderately Aggressive Portfolios returned 3.52% and the VP Aggressive Portfolio returned 3.88% (all figures net of investment management fees).

The portfolios all remained near neutral versus benchmark weights for U.S. equity allocations with a continued overweight position directed at overseas equity positions. Fixed income allocations all remained several percentage points below that of the benchmarks' allocation.

Overall, the decision to overweight segments of the overseas equity markets proved beneficial to relative returns. Underlying manager performance within the funds also contributed favorably to relative performance during the quarter. U.S. large cap managers proved to be one of the strongest contributors. The underweight allocation directed at core fixed income managers also contributed favorably to relative returns as equities, on average, broadly outperformed fixed income positions. An overweight (out-of-benchmark) position remained in alternative investment strategies. This position is largely centered on trying to help reduce volatility and offer additional diversification. During the quarter, commodity related investments and a managed futures strategy resulted in underperformance within the alternatives segment of the funds.

Some of the underlying funds that served as key contributors, as well as detractors, from relative results during the quarter, are shown below (please note that an underlying fund being a contributor or detractor is not necessarily indicative of how it performed relative to its own benchmark). Not all funds shown below are held inside each fund at the same exposure weight. As a result, the impact of each contributor/detractor will vary by fund.

| Contributors | Detractors |
|---|---|
| • VP – Loomis Sayles Growth Fund<br>• Columbia VP – Long Government/Credit Fund<br>• Columbia VP – Large Cap Growth Fund<br>• VP – Morgan Stanley Advantage Fund<br>• VP – MFS Value Fund | • Columbia VP – Commodity Strategy Fund<br>• VP – Wells Fargo Short Duration Government Fund<br>• VP – AQR Managed Futures Fund<br>• VP – DFA International Value Fund |

Source: Columbia Threadneedle Investments, as of 6/30/17

## Market Outlook

We currently recommend a neutral stance on equities overall. From a tactical perspective, we continue to favor non-U.S. equity markets primarily because of more favorable valuations. Early in the year, our annual five-year time horizon forecasting exercise for expected returns across capital markets called for stocks and other risky assets to appreciate in the range of mid-to-high single digits for the calendar year. Now at the middle of the year, and, with the S&P 500 having already met that slightly aggressive full year performance hypothesis, we are left with a reconciliation to examine the underpinnings of where the markets might head next.

As the months tick by, as one record high after another is notched, and, volatility has largely deflated before our eyes, we are somewhat guarded against the increasing asymmetric probability of outcomes for investors in the months ahead. As a result of this caution, we believe it may be sensible to consider an allocation shift to a more defensive posture, however, the case for aggressive de-risking remains tenuous. As a result, our recommended aggressiveness remains neutral for now, but a change in that view could emerge in fairly short order given the state of affairs across global capital markets.

For one thing, we've identified numerous potential catalysts that could trigger a realization of the lopsided distribution of performance returns that we have noted. First on the list are global central banks. As the cheered for fiscal and regulatory reforms have been slow to materialize, we wonder if central bank policy could wrestle back to center stage for investors. The Federal Reserve has just issued its fourth interest rate hike, and, before long, the unwinding of assets accumulated during quantitative easing actions of recent years may commence. Across the ocean, the European Central Bank (ECB) faces a tapering dilemma of its own. With supply of German Bonds running low, further quantitative easing on the part of the ECB is constrained as much by availability as it is by economics. Importantly, investors do not expect much in the way of further tightening, so nearly anything along these lines might present an adverse shock.

Commodity price weakness is another concern. The last time we had a risk-off market event of any lasting consequence, the origin was oil price weakness. While oil prices remain high enough to assuage that concern, we note that risk premiums for high yield borrowers in the energy sector are already widening. Perhaps another sequence of events could result from weak oil. Finally, China would seem satisfied with the policy stimulus that has been in place all year. Incremental tightening in China may, as often occurs, have unhappy effects for world markets.

Within fixed income, we have a general view that is neutral in scope for taking on interest rate risk within the portfolios. At the end of 2016, this view was cautious as inflation measures were signaling continued pressure on interest rate sensitive assets. While much of the second quarter saw interest rate sensitive assets perform reasonably, during the final few weeks of the period we saw renewed pressure on some interest rate sensitive assets as bond yields increased across the yield curve.

So with opportunities asymmetric and with catalysts for a volatility storm in ready supply, we turn the page to the second half of the year with one foot near the brake. Should the storyline for any of these fundamental narratives head south, so too will our risk allocation.

## Blended benchmarks

| | VP – Aggressive Portfolio | VP – Moderately Aggressive Portfolio | VP – Moderate Portfolio | VP – Moderately Conservative Portfolio | VP – Conservative Portfolio |
|---|---|---|---|---|---|
| **Russell 3000 Index** | 56.0% | 46.0% | 35.0% | 24.0% | 14.0% |
| **MSCI EAFE** | 24.0% | 19.0% | 15.0% | 11.0% | 6.0% |
| **Bloomberg Barclays Capital U.S. Aggregate Bond Index** | 20.0% | 35.0% | 50.0% | 65.0% | 80.0% |

**Russell 3000** - an index of the largest 3,000 U.S. stocks by market cap.
**MSCI EAFE** - an index of developed international stock markets.
**Bloomberg Barclays Capital U.S. Aggregate Bond** - an index of high-quality government and corporate bonds.

Columbia Threadneedle Investments ("Columbia Threadneedle") is the global brand name of the Columbia and Threadneedle group of companies.

Insurance product fees will affect performance and can be found in the performance reports located at RiverSource.com > Insurance > Performance.

Variable life insurance is a complex investment vehicle that is subject to market risk, including the potential loss of principal invested.

There is no guarantee that investment objectives will be satisfied or that return expectations will be met. Asset allocation does not assure a profit or protect against a loss in declining markets.

**Please carefully consider the investment objectives, risks, charges and expenses of any variable fund and its related variable policy before investing. For variable fund and variable policy prospectuses, which contain this and other important information, call 1-800-333-3437. Please read the prospectuses carefully before you invest.**

**Portfolio Navigator:**
These funds are sold exclusively as underlying investment options of variable annuity and variable universal life insurance products offered by RiverSource Life Insurance Company and RiverSource Life Insurance Co. of New York (collectively, RiverSource Life). The funds are managed by Columbia Management Investment Advisers, LLC, an affiliate of RiverSource Life. RiverSource Life, Columbia Management and their affiliates may receive revenue related to assets allocated to the funds. Prior to allocating contract or policy values to a subaccount that invests in one of the funds, you should read the description contained in the applicable variable product and fund prospectuses.

Index performance is provided for illustrative purposes only and does not reflect the fees and expenses of investing in variable products. Indices are not intended to represent specific investments. Investors cannot invest directly in an index.

Investing in certain funds involves special risk, such as those related to investments in foreign securities, small- and mid-capitalization stocks, fixed income securities (especially high-yield securities), and funds which focus their investments in a particular sector. See each fund's prospectus for specific risks associated with the fund.

**Annual Fund Operating Expenses (expenses you pay each year as a percentage of the value of your investment)**

| | Aggressive | Moderately Aggressive | Moderate | Moderately Conservative | Conservative |
|---|---|---|---|---|---|
| **Variable Portfolio** | **1.07%** | **1.03%** | **0.99%** | **0.93%** | **0.88%** |

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