Advantus Strategic Dividend Income (SDI) Fund

Fourth Quarter 2017

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Market Update

The Strategic Dividend Income (SDI) strategy delivered what we believe to be a disappointing fourth quarter return in what was otherwise a good year. Gross portfolio yield rose modestly in the context of a flat yield on the 10-Year U.S. Treasury. While there were modest upside flares, overall equity market volatility* continued its trend near all-time lows.

Gross domestic product (GDP) growth rebounded after the hurricane-impacted third quarter and overall corporate earnings reflected the growing economy. Inflation remained low. The Federal Reserve (Fed) executed its well-telegraphed plan to raise the Fed funds rate in December. The quarter ended with the passing of a tax reform bill, setting the stage for growth in 2018.

Real Estate Investment Trusts (REITs) experienced a solid quarter, rebounding from weaker trends in 2017. While still feeling the headwinds of potentially higher interest rates, new supply, and slowing earnings growth, REITs experienced discounted fundamentals. In particular, regional mall and hotel REITs led the sector in the quarter after earlier negative sentiment.

Midstream energy infrastructure master limited partnerships (MLPs) experienced headwinds in the middle of the quarter before turning the corner at the end of November. Still, the quarter's return for MLPs were slightly negative. MLPs saw a continuation of their evolution into better capital discipline, self-funding their equity needs, stronger coverage of their distribution, and better corporate governance. The strong commodities, rising production, and export markets growth support a positive outlook into 2018.

Utilities had a good year overall with a flat fourth quarter. Expectations for increased infrastructure investment to improve grids and renewable generation systems set a foundation for near term growth expectations. As broader market sentiment was rather positive, Utilities did not attract as much defensive investor interest in the quarter.

Corporate bonds and preferred stocks benefitted from credit spreads continued tightening. Treasury inflation protected securities (TIPS) also had a solid quarter as market expectations for inflation began to rise.

Strategy

We reduced our weighting in MLPs during the quarter to an underweight position relative to the custom benchmark weight because their unit prices were pressured when tax loss selling pushed their prices lower. At the beginning of December, market sentiment changed as investors began to recognize the value opportunity created by the selloff as well as the strong distribution yield potential. We added higher quality MLPs with strong balance sheets, capital expenditure plans in line with company cashflows, with well-covered distributions.

We slowly increased REIT holdings, seeking sectors with catalysts and fundamental upside relative to investor expectations. We increased regional mall weighting when these stocks were pressured on fears that online shopping would displace the "bricks and mortar" retail. Holiday sales for retailers produced a modest positive, leading activist investors to fuel merger talks on this discounted sector. We reduced healthcare facilities weighting on fears that new construction of senior housing would impact occupancy and rental rates for this property type.

While still an underweight position, we increased Utility holdings in the quarter, seeking additional exposure to this defensive sector. With long term Treasury yields remaining flat during the quarter, preferred stock, TIPS and cash holding were relatively stable.

Outlook

Investors enter 2018 with a positive outlook. Global economic growth continues within a context of low inflation. In turn, we believe earnings should continue to grow. Domestically, corporate executives may consider how the lower tax rate will contribute to earnings. We expect the weaker dollar over the past year should improve U.S. exports. Risks of additional Fed tightening, higher levels of inflation, market valuations and geopolitical risks may be set aside by economic and earnings strength, at least in the short run.

Income oriented securities may face headwinds from higher interest rates and inflation pressures in 2018. Companies with higher growth potential may attract more investor interest if earnings and GDP continues to accelerate.

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However, if uncertainty impacts the broader investment markets, companies that exhibit higher yield and growth rates could stand out as strong investment opportunities.

MLPs could have a good year as energy commodity fundamentals could increase demand for energy infrastructure assets while seeing a declining need for external equity capital to support growth. We believe recent business model improvements, better balance sheet management, and better corporate governance should attract a broader group of investors to this sector. A return to distribution growth may once again draw the retail investor back to MLPs.

REITs may have a better year once the impact of the new supply of competitive properties begins to slow. We believe continued improvement in employment should boost the sector. Later in the year we may begin to see better occupancy and rental rate growth begin to be recognized.

Utilities, while at the high end of historic valuation levels, continued to be rewarded for the consistency and visibility of their growth. We favor companies that have the ability to invest in the quality of their distribution systems and access to renewable generation opportunities.

We believe corporate bonds and preferred stocks will struggle to improve their current valuation levels, particularly if inflation expectations begin to push interest rates higher. If inflation fears persist, opportunities may be found in TIPS and floating rate bonds.

The SDI Fund incorporates the flexibility to navigate uncertainty and changing market conditions. We expect active management within a multi-asset portfolio may be rewarded in increasingly challenging markets.

The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The summary and statutory prospectuses contain this and other important information about the investment company, and may be obtained by calling 1.855.824.1355. Read it carefully before investing.

Mutual fund investing involves risk. Principal loss is possible. Investors should be aware of the risks involved with investing in a fund concentrating in a specific industry such as REITs or real estate securities. These include risks such as declines in the value of real estate and increased susceptibility to adverse economic or regulatory developments. The Fund may invest in smaller or medium sized companies, which involve additional risks such as limited liquidity and greater volatility than large companies. The Fund may invest in foreign securities which involve political, economic and currency risks, greater volatility and differences in accounting methods. The Fund may invest in ETFs and ETNs, which are subject to additional risks that do not apply to conventional mutual funds, including the risks that the market price of the shares may trade at a discount to its net asset value ("NAV"), an active secondary trading market may not develop or be maintained, or trading may be halted by the exchange in which they trade, which may impact a Fund's ability to sell its shares. MLPs are subject to certain risks inherent in the structure of MLPs, including complex tax structure risks, the limited ability for election or removal of management, limited voting rights, potential dependence on parent companies or sponsors for revenues to satisfy obligations, and potential conflicts of interest between partners, members and affiliates. The fund may also use options and future contracts, which have the risks of unlimited losses of the underlying holdings due to unanticipated market movements and failure to correctly predict the direction of securities prices, interest rates and currency exchange rates. Writing covered calls may limit the upside potential of the underlying security and may obligate the Fund to purchase the underlying security during unfavorable market conditions.

The SDI Custom Index consists of 54% FTSE NAREIT Equity REITs Index, 10% Wells Fargo Hybrid & Preferred Securities REIT Index, 12% S&P 500 Utilities Index, 12% Alerian MLP Index, and 12% Bloomberg Barclays U.S. Treasury Inflation-Linked Bond Index. The FTSE NAREIT US Real Estate Index Series is designed to present investors with a comprehensive family of REIT performance indexes that spans the commercial real estate space across the US economy. The FTSE NAREIT Equity REITs index contains all Equity REITs not designated as Timber REITs or Infrastructure REITs and is free-float weighted.The Wells Fargo Hybrid and Preferred Securities REIT Index is composed exclusively of preferred shares and depository shares of U.S. real estate investment trusts. The S&P 500 Index consists of 500 large cap common stocks which together represent approximately 80% of the total U.S. stock market. It is a float-adjusted market-weighted index (stock price times float-adjusted shares outstanding), with each stock affecting the index in proportion to its market value. The "S&P 500 Utilities Index" is the utilities component of the "S&P 500". The Alerian MLP Index is a market-cap weighted, float-adjusted index created to provide a comprehensive benchmark for investors to track the performance of the energy MLP sector. The Bloomberg Barclays U.S. Treasury Inflation-Linked Bond Index measures the performance of the U.S. Treasury Inflation Protected Securities (TIPS) market. Federal Reserve holdings of U.S. TIPS are not index eligible and are excluded from the amount outstanding of each bond in the index.

*Standard Deviation is a statistical measure of the historical volatility of a mutual fund or portfolio, usually computed using 36 monthly returns.

Credit spread is the difference in yield between two bonds of similar maturity but different credit quality.

Distribution yield is a measurement of cash flow paid by an exchange-traded fund, real estate investment trust or another type of income-paying vehicle.

It is not possible to invest directly in an index.

Earnings growth is not representative of the Fund's future performance.

The information contained herein represents the opinion of Advantus Capital Management and is not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

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