ADVANTUS® | MUTUAL FUNDS

Advantus Strategic Dividend Income (SDI) Fund

Third Quarter 2017

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Market Update

The Strategic Dividend Income (SDI) Fund continues to execute in the market by generating positive returns. Income oriented securities were impacted by the volatility in the yield on the 10-Year Treasury, providing both support and headwinds in the quarter. Portfolio yield was flat during the quarter. Volatility* of the broader equity markets remains near all-time lows. SDI volatility was modestly lower than its custom benchmark, but slightly higher than the S&P 500® Index.

Economic growth continued to increase and business and consumer confidence was strong. A weaker dollar allowed domestic companies to benefit from the acceleration of growth globally. With the exception of building construction, inflation has been absent. Corporate earnings continued to reflect the steady improvement on economic strength supporting revenue growth and minimal inflation.

Overall cost of capital continued to improve. Equities are trading at high multiples on the growing confidence in earnings improvement. Debt markets have been robust, with tightening credit spreads offsetting some of the overall increase in base interest rates. The Federal Reserve (Fed) announced balance sheet normalization. Generally, the market seems to ignore factors influencing a higher risk perspective such as North Korea, hurricanes, tweets, government policy, etc. While volatility had flares early in the quarter, the CBOE Volatility (VIX) Index ended the period near all-time lows.

Real Estate Investment Trusts (REITs) continued to feel the pressure of expectations that earnings growth would decelerate for most property types. Overall, the REIT sector is trading at full valuations relative to their expected growth and the earnings slowdown led to flat returns to the group for the quarter.

Midstream energy companies (oil and gas transportation and storage) continue to improve balance sheets and right-size their capital expenditure budgets relative to their cashflow, providing for a more significant focus on return on investments. Best opportunities appear to be with companies that are relieving bottlenecks in the system with projects that are backed by significant customer demand. Headwinds are increasing for the group as growth fundamentals have indications of slowing.

Utilities benefited from the concerns of uncertainty, becoming the market favorite as a defensive group. The steady, predictable growth in earnings was sought by investors, raising the group to above historic multiple levels. Many utility companies have taken advantage of the lower rate environment to lower their cost of capital.

Strategy

Energy/Master Limited Partnership (MLP) weight was held steady over the period. While crude oil pricing was up over 10% in the quarter, our expectation of better performance from midstream MLPs was a disappointment as they declined roughly 3%. As funds flow has been weak in the sector, we are watching trading exposure from larger cap exposure in the space, while focusing our exposure on fundamentally driven opportunities.

Real estate securities weighting was reduced modestly later in the quarter on concern of the impact of higher interest rates on these stocks. We harvested some gains in industrial and specialty REITs on their strong performance. Regional mall and self-storage REITs were sold on declining expectations for operating performance. Office, hotel, and Infrastructure REITs were added in the period with expectations that these REITs would benefit from the growing economy.

Utilities continue to be bid for their defensive and income attributes, while valuations are well above long-term averages. We increased portfolio weight this sector, with focus on higher growth regulated utilities.

Preferred stock holdings were flat to down early in the quarter as we continued to sell securities that are approaching their call dates and are trading above par. Late in the quarter we had opportunities to add exposure on new issuances. We also increased exposure to Treasury Inflation Protected Securities anticipating that market expectations for inflation would increase.

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Outlook

Global economies have shifted to consistent growth as policies of stimulus over the previous years are now bearing fruit. The broader equity market continues to reach for higher valuation levels while seemingly ignoring a list of worries that may be ahead. This move is driven by rising levels of corporate profitability which we expect to lead to future business investment and job growth. Headwinds of the Trump Administration's lack of success in executing their growth agenda, the unwinding of the Fed's balance sheet, and tensions in North Korea and the Middle East, are present, but seem to have little impact on investor willingness to take on risk. Rising interest rates could also be an impediment for the market, particularly if driven by increased expectations for inflation.

Should the wall of worry result in a correction in the broader markets, defensive groups within our target sectors could benefit. The accumulated savings on a global basis continues to search for yield in what is still a low rate environment. We expect investors to extend their search for yield into income-oriented equities.

As with past market moves, the Fund incorporates flexibility to navigate uncertainty during potential market corrections. It is in this type of environment where active management within a multi-asset portfolio may be rewarded.

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% Wilshire U.S. Real Estate Securities 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 Wilshire U.S. Real Estate Securities Index is a float-adjusted market capitalization weighted index of publicly traded real estate securities, such as: Real Estate Investment Trusts (REITs), Real Estate Operating Companies (REOCs) and partnerships. The index is comprised of companies whose charter is the equity ownership and operation of commercial real estate. 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.

The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

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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