July 2016

MEEDER INVESTMENT MANAGEMENT

Monthly Market Commentary

Discussion Points

- Dow Jones Industrial Average & S&P 500 hit all-time highs
- 10-Year and 30-Year Treasuries hit all-time lows
- Meeder Defensive Equity position remains fully invested

For the period ending July 31, 2016

Politics have continued to dominate headlines as the U.S. prepares for the November presidential election. As Hillary Clinton and Donald Trump have accepted their respective political party's Democratic and Republican Presidential nominations, there appears to be no end in sight for the controversy surrounding this election. In spite of this, the S&P 500 Index made its own headlines by reaching multiple new all-time highs throughout July before ending the month up 3.56% and YTD up 6.34% (excluding dividends). Ironically, as equity markets trended in unchartered positive territory, U.S. Treasury markets continued their streak of all-time lows. On July 8th, the 30-year Treasury bond and the 10-year Treasury note hit an all-time low of 2.09% and 1.35%, respectively. While mortgage rates closely related to these key benchmarks remain at historic lows, home ownership rates still slumped 0.6% to 62.9% during the second quarter of 2016. This 0.6% decline, while not significant on the surface, represented a home ownership low not seen since 1965.

The Federal Reserve Open Market Committee (FOMC) held the Federal Funds target rate of 0.25%-0.50% at their July meeting. They have only raised the overnight lending rate a single time (December 2015) in over a decade, with the last prior rate hike being June 26, 2006. The FOMC continues to maintain the position that the decision to proceed with rate hikes is data dependent and that making sure the economy is robust enough to support the additional stress on growth is a top priority. So, when extremely weak GDP numbers for the 1st quarter of 2016 were released before the July FOMC meeting, it came as no surprise that the FOMC held their position. GDP expectations were forecasted to be 2.6% and actual results were a meager 1.2%. All eyes will be on the FOMC annual meeting that is held in Jackson Hole, Wyoming on August 26th. This meeting has historically been a time when the Fed has given more guidance on their outlook for the near term.

One of the best economic data points released for the month was the July employment numbers, which reported a

Tracking the S&P 500 Index (12/31/1995-7/31/16)

Source: Bloomberg

creation of 255,000 jobs versus consensus expectations of just 180,000. Unemployment numbers for July were 4.9% vs. expectations of 4.8%. The U6 unemployment rate was 9.7%. This much broader and more encompassing calculation includes anyone that is working even just part time, in addition to those that have not looked for work because they don't believe there is a job available.

Much of the economy continues to benefit from low oil prices. Crude oil production increased throughout the month, causing prices to slide from last month's peak of $52 a barrel, to end the month at just over $41. Oil has once again entered bear market territory as prices have slid over 20%.

While equity volatility reached heightened levels early in 2016, fixed income markets have continued to be a safe haven of stability after the announcement of the United Kingdom's decision to exit the European Union (Brexit). Investors that have maintained high yield exposure have continued to be rewarded as the higher risk premium category continues to lead fixed income markets over Treasuries. The widely followed Barclay's U.S. Aggregate Bond Index posted 0.63% for the month, bringing the year-to-date return to 5.98%. On the international front, as news of Brexit subsided, international markets posted solid returns for the month. Developed International markets (MSCI EAFE Index) rose 5.03% while emerging markets (MSCI EM Index) were up 5.07% in July.

INVESTMENT MODEL OUTPUT & POSITIONING UPDATE

Defensive Equity

Our defensive equity model is designed to analyze the risk/reward relationship of the market. Depending on the results of this risk assessment, we then allocate the assets accordingly. This model is comprised of a variety of factors from major investing disciplines, including fundamental, macroeconomic, trend/technical and momentum components. At the beginning of 2016, we started the year with a 40% defensive position and increased it to as high as 55% in late January in our unconstrained tactical strategies. Since that time, our factors have turned increasingly positive as the year has evolved and has indicated a much more favorable risk/reward relationship is present in the stock market. We entered the second quarter with a partially defensive position, but continued to increase our exposure to the stock market until the portfolio was fully invested in May. We have remained fully invested through the end of July as trend and breadth indicators continue to be favorable. Our macroeconomic, sentiment and valuation factors have remained neutral.

Equity

Our theme positioning incorporates our equity exposure to growth and value, market capitalization ranges, sectors, as well as our exposure to international markets. Our model continues to favor value over growth. Momentum and volatility factors are the drivers behind this preference. Relative to the Russell 3000 Index, our models remain in line with market cap weights between large, mid and small cap stocks.

On a sector basis, our models continue to favor technology due to valuation and yield curve factors. The relationship of yield curve factors to the technology sector exists due to the curve steepness that has persisted as a result of the Fed's resistance to raise short-term rates. Steeper yield curve environments are typically associated with the early stages of an economic recovery, where growth and cyclical sectors tend to outperform. The largest underweight in the model remains in utilities due to poor valuation scores from our models.

International

In our international model, intermediate-term momentum factors have remained in favor of domestic exposure, while currency metrics and short-term momentum are in favor of international regions. We started the second quarter by establishing a tactical position in emerging market equity securities, which was driven by momentum, currency, and valuation factors in our model. As the quarter progressed, we also added tactical exposure to developed international regions as momentum metrics and global economic indicators evolved to favor this exposure. However, our model output demonstrated deterioration in international scores in June, which led us to substantially reduce our emerging market exposure and eliminate our developed international positions prior to Brexit. We maintained a small allocation to emerging market equities, however, our models appear to be indicating the start of a shift in their preference back toward developed international based on near-term momentum and currency factors.

Fixed Income

Nearly one week prior to Brexit, we repositioned our fixed income portfolios and decreased exposure to high yield securities while increasing our exposure to Treasuries. This move helped Meeder's fixed income portfolios as investors saw a flight-to-quality. Prices of Treasuries increased as the 30-year Treasury bond and the 10-year Treasury note yields hit all-time lows in early July. As markets digested the news of Brexit, we saw a rebound in investor sentiment and an increased appetite for risk. Evidence of this change was also reflected in our models causing us to increase exposure in our portfolios to high yield securities to over 30% and maintaining our allocation to emerging market bonds at 15%. We have also sustained duration in the portfolio slightly less than that of the Barclays U.S. Aggregate Bond Index. Our Flexible Fixed Income Portfolio continues to follow our model output by allocating higher weightings toward investment-grade credit over Treasuries.

Past performance is not a guarantee of future results. Investing in securities involves inherent risks, including the risk that you can lose the value of your investment. There is no assurance that the investment process will lead to successful results. Opinions and forecasts regarding sectors, industries, companies, countries and/or themes, portfolio composition and holdings are as of July 31, 2016 and are all subject to change at any time, based on market and other conditions, and should not be construed as a recommendation of any specific security, industry, or sector.

The Portfolios are not mutual funds or other commingled investment vehicles registered with the U.S. Securities and Exchange Commission. The Portfolios are exposed to the risks of the mutual funds in which they invest (the "Underlying Funds"), directly in proportion to the allocation of each Portfolio to the Underlying Funds. Returns and net asset values of the Underlying Funds may be affected by political or economic conditions, the risks of investing in domestic and foreign equity and fixed income securities, as well as regulatory requirements. The Underlying Funds that make-up each Portfolio are subject to change, based on changes in market conditions, as well as for other reasons.

Investors are advised to consider the investment objectives, risks, charges, and expenses of the Meeder Funds and portfolios carefully before investing. This information can be found in the Meeder Funds prospectus and the prospectus of each Underlying Fund. A copy of the Underlying Funds prospectus can be obtained by directly contacting the Underlying Fund Company. To request or receive a copy of the Meeder Funds prospectus or information about Meeder Portfolios, contact Client Services at (866) 633-3371 or visit www.meederfunds.com.

The S&P 500 Index is a market value-weighted index of common stocks considered representative of the broad market. The MSCI EAFE Index (Europe, Australia, Far East) is an equity index which captures large and mid cap representation across Developed Markets countries around the world, excluding the U.S. and Canada. With 910 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The MSCI Emerging Markets Index captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 822 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country. The Barclays Capital U.S. Aggregate Bond is a broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, Mortgage-Backed Securities (agency fixed-rate and hybrid ARM pass-throughs), Asset-Backed Securities and Commercial Mortgage-Backed Securities. The U.S. Aggregate rolls up into other Barclays Capital flagship indices such as the multi-currency Global Aggregate Index and the U.S. Universal Index, which includes high-yield and emerging markets debt. The U.S. Aggregate Index was created in 1986, with index history backfilled to January 1, 1976. The Russell 3000 Index is a market-capitalization weighted index measuring the performance of the 3,000 largest U.S. companies based on total market capitalization. One cannot invest directly in an index.

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